

China Insights

Qunhui Huang
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The Road Towards Common Prosperity

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The Road Towards Common Prosperity



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Chapter 1

Preface



Common prosperity has for long been a social and economic ideal for the Chinese. In the ancient periods of the Spring and Autumn and the Warring States, there were thoughts on governance of “*yi tian xia zhi cai, li tian xia zhi ren* (以天下之财、利天下之人)”, and entrenched well-known visions of “a world for all” and grand harmony and universal cornucopia, which laid a solid foundation for the basic idea of common prosperity.¹ In the field of economics, common prosperity refers to the process and the goal of balancing the relationship between efficiency and equity. In today’s China, common prosperity is not only an essential requirement of socialism, but also will be an important feature of China as a modern country. The modernization in China enters a new era. In the next 15 years or so, China will basically realize socialist modernization and make more substantial progress in common prosperity. In the next 30 years or so, China will become a great modern socialist country and largely achieve common prosperity. In one word, common prosperity is a key goal of the socialist construction by the Chinese people under the leadership of the Communist Party of China (CPC).

1.1 Socialism, Modernization, and Common Prosperity

Common prosperity literally indicates common well-off lives for all people. On one hand, it means the society is abundant in materials for the highly developed social productive forces, and, on the other, all people lead well-off lives in general as they can equally share the achievements of the highly developed productive forces. From the

¹ “*yi tian xia zhi cai, li tian xia zhi ren* (以天下之财、利天下之人)”, meaning “the wealth of the nation for the well-being of its people”, is a quote from *Guanzi* (Chapter *Bayan*). Although there were thoughts like “evening the rich and poor” and “inequality rather than want is the cause of trouble” in ancient China, the idea of “common prosperity” is different, since “evening the rich and poor” were often interpreted as “robbing the rich to feed the poor”, which is by no means the original intention of “common prosperity”.

perspective of the development of human society, almost every country wants to build a prosperous society with highly developed productivity, but not all of them pursue common prosperity for all. To understand China's common prosperity, we need to analyze it from two interrelated perspectives, namely, the essential requirements of socialism and the road to modernization.

From the perspective of socialism, common prosperity is an essential requirement for socialist construction in China. In the view of classic Marxists, common prosperity is a core feature of socialism. Socialist production should target at the prosperity of all people and benefiting all participants with the wealth created jointly. Therefore, in the early days after the founding of the People's Republic of China (PRC), Mao Zedong believed that through the implementation of the socialist plans and system, China would grow more prosperous and stronger year by year, and such annual improvements would be noticeable, helping secure national strength and prosperity which would be common prosperity and reachable.² At the beginning of reform and opening-up, Comrade Deng Xiaoping paid his attention not only to the development and liberation of productive forces, but also to common prosperity, which he believed would one day become a core issue. In 1992, Comrade Deng Xiaoping pointed out in his well-known Southern Talks that the essence of socialism is to liberate and develop productive forces, eliminate exploitation and polarization, and finally achieve common prosperity. In addition, according to Comrade Deng Xiaoping, common prosperity is "the purpose of socialism", "the principle of socialism" and "the greatest superiority of socialism".³

Since the 18th CPC National Congress, President Xi Jinping has stressed on different occasions that common prosperity is the fundamental principle of socialism with Chinese characteristics. The realization of common prosperity presents a critical mission for the CPC. The development the CPC pursues should benefit all people, and the prosperity the CPC seeks to realize should be common prosperity, so it needs to share the achievements of the development more widely and fairly, and constantly promote all-round development of people, along the road towards common prosperity for all. In other words, the realization of common prosperity for all is an embedded requirement of the essence, objectives and principles of socialism as an important embodiment of the superiority of the socialist system.

From the perspective of modernization, common prosperity constitutes an important feature of China's road toward modernization. The modernization of China has generally gone through three periods. The first was the period of socialist revolution and construction, which helped establish the basic socialist system, promote socialist construction, and construct an independent and relatively complete industrial system and national economic system, which laid the fundamental political premise and economic foundation for China toward modernization. The second was the new period of reform, opening-up, and socialist construction with Chinese characteristics, when a world economic miracle occurred in China, a socialist market economy system full of new vitality was formed, and China made the historic leap

² *Collected Works of Mao Zedong*, Vol. 6, People's Publishing House, 1999, pp. 495–496.

³ *Selected Works of Deng Xiaoping*, Vol. 3, People's Publishing House, 1993, p. 364, p. 373.

from insufficiency to an overall even all-round well-off society, along a road to modernization with Chinese characteristics being shaped gradually. The third is the new era of socialist construction with Chinese characteristics. By now, China has completed the building of a moderately prosperous society in all respects, and the basic industrialization, fulfilling the first centenary goal. The theoretical and institutional system for China's road to modernization is enhanced and perfected gradually, the material foundation is more solid, and the whole country becomes more confident in China's modernization road.

As a developmental phenomenon and process worldwide and a reflection of the trends in the advancement of the human society and civilization since the industrial revolution in the 18th century, modernizations of countries will undoubtedly show common characteristics, while China's modernization has distinct Chinese characteristics. In fact, and most fundamentally, the CPC is leading a socialist modernization in China with the largest population in the world, which determines that China's modernization is targeted at common prosperity for a huge population, coordinated development of material and spiritual civilization and the harmonious coexistence of man and nature, along a peaceful way.

Common prosperity itself can be a state or an outcome, or a process or a conduct. As a state or an outcome, common prosperity means a prosperous and good life for all and overall prosperity across the society. Common prosperity is antonymous to the polarization between the rich and the poor, but not synonymous with the "equal division of wealth" of the equalitarianism. Common prosperity describes neither the state with a huge gap between the fewer rich and the vast of the poor, nor the equal richness favored by equalitarians. As a process or a conduct, common prosperity means common development for common affluence. Specifically, all people have common rights and opportunities to pursue development and wealth through hard work, to finally realize the common development of all people through collaborated and joint efforts. Common prosperity does not mean prosperity for all at the same time without differences, and it targets at the affluence for all by encouraging those having got prosperous first to help others catch up.



As “the home to tribute tea” and “the origin of herbal tea”, Xianxi Town, Anhua County, Hunan Province, boasts an annual tea output of 1008 plus tons of an output value of more than RMB 0.12 billion, as a prominent contribution to the prosperity of the industry, the revitalization of the countryside and the all-for-one tourism. *Source* Photo by Pan Haikuo

As a significant feature of China’s modernization, common prosperity, as a state or an outcome, is a requirement and goal for China toward modernization, while as a process or a conduct, it refers to the road of China to modernization. As a requirement, on one hand, common prosperity has a connotation of “prosperity” based on highly developed social productive forces and comprehensive social progress, and prosperity includes not only material abundance but also spiritual enrichment. On the other, common prosperity requires common sharing of the achievements of modernization among all people and meeting the needs of all people for a better life. Common prosperity, as a goal and requirement of China’s modernization, reflects the socialist values of the CPC for the benefit of all people, and it is also an important measure of the construction of a great modern socialist country. From the perspective of the implementation path, the relationship between equity and efficiency should be properly balanced during the construction of modernization guided by the concept of shared development, to establish a fair and inclusive environment and institutional system and to boost the development by all and for all. Besides, it needs to dynamically understand the strategic tasks of modernization in developing productive forces and eliminating polarization, to construct a modern policy system conducive to the development of productive forces and narrowing the gap between the rich and the poor.

2021 saw China's modernization move to a new stage of development, and common prosperity was necessarily placed at a more important position. *The Proposal of the CPC Central Committee on Formulating the 14th Five-Year Plan for National Economic and Social Development and the Long-range Objectives through the Year 2035* put forward that more significant and substantive progress in common prosperity was expected to be made by 2035. As an essential requirement for socialism with Chinese characteristics and an important feature of the road for China to modernization, common prosperity is a long-range objective that can not be achieved overnight nor all at once, and it is a long-term historical process of dynamic development. The report of the 19th CPC National Congress divided the process of common prosperity into three stages. By 2035, the people in China will live a life of greater abundance, with a significant increase in the proportion of middle-income groups and much narrower gaps between urban and rural areas of development and the living standards, and urban and rural residents enjoy equal basic public services largely, moving toward common prosperity for all with solid steps. By the middle of this century, China would fundamentally realize common prosperity, with people having a happier and healthier life.

1.2 China's Exploration of Common Prosperity

Since the day it was founded, the CPC has established its original aspiration and mission of seeking happiness for the Chinese people and rejuvenation for the Chinese nation, and set the target of realizing common prosperity for all Chinese. After the founding of the PRC, the CPC embarked on the journey of socialist modernization with the Chinese people under its leadership. On September 21st, 1949, it was clearly stated in the *Common Program of the Chinese People's Political Consultative Conference (CPPCC)* that China would develop the new democratic people's economy and steadily transform into an industrial country from the agricultural one. In 1953, the CPC formally put forward the general line for the transitional period, namely, China would gradually realize socialist industrialization over a fairly long period and the socialist transformation of agriculture, handicraft and capitalist industry and commerce. After the socialist transformation, it was proposed at the 8th CPC National Congress that the main task for the whole country was to concentrate on the development of social productive forces and national industrialization, in order to meet the growing material and cultural needs of the people step by step. During this period, the planned economic system was established. The CPC chose socialist industrialization in China as the basic path to common prosperity for all, aiming at building China into a modern socialist country through modernization of agriculture, industry, national defense, and science and technology.

After the implementation of several five-year plans, the PRC has made great achievements in its industrialization construction, established an independent and relatively complete industrial system and national economic system, significantly improved agricultural production conditions, with great progress in sectors including

education, science, culture, health and sports, and breakthroughs in cutting-edge national defense technologies. For example, China succeeded in projects of “two bombs and one satellite”, and established the national defense industry bit by bit from scratch. In 1980, compared with 1952 when China completed the economic recovery plan, the industrial fixed assets in China increased by more than 26 times (calculated at the original prices), reaching more than RMB 410 billion. Among these main industrial products, the output of cotton yarn increased by 3.5 times to 29.13 million tons, raw coal output by 8.4 times to 620 million tons, electric energy production by 40 times, to more than 300 billion kWh, crude oil output to more than 105 million tons, steel output to more than 37 million tons, and the output value of the machinery industry by 53 times, to more than RMB 127 billion.⁴ All these achievements undoubtedly laid a certain economic foundation for common prosperity.

In the period from the founding of the PRC to completing the socialist revolution and promoting socialist construction, China established a socialist economic system based on public ownership, which is decisive to the realization of common prosperity. However, China needed further exploration and innovation to seek for ways to improve productivity and balance equity and efficiency. During that period, common prosperity was more regarded as simultaneous prosperity, the drawbacks of the planned economic system greatly constrained the development of productive forces, the over-concerns on inequality between the rich and the poor lead to ignorance of efficiency and incentives, and the “big pot” distribution system of egalitarianism resulted in common poverty instead of common prosperity.

With the implementation of the reform and opening-up policy, the CPC was deeply aware that common prosperity in a socialist country is by no means equal to absolutely average prosperity, or simultaneous prosperity of the whole society at the same pace. The road to common prosperity should be a path of unbalanced development, allowing some regions and some capable and determined people to develop and get rich earlier and more quickly through hard and honest work, and lawful operation of their businesses, and then to aid and support other regions and people to catch up, and move toward common prosperity. Thus, China developed a socialist road toward common prosperity with Chinese characteristics of “common prosperity through encouraging those having got prosperous first to help others catch up”, or a model of common prosperity for “pioneering prosperous, following prosperous, and common prosperity”. From the perspective of the relationship between efficiency and equity, without efficiency, it is difficult to create a material basis for common prosperity, while without equity, it is impossible to achieve common prosperity. “Pioneering prosperous” highlights the emphasis on efficiency, while aids to the “following prosperous” reflects the due consideration to equity, and “common prosperity” means the balanced relationship between efficiency and equity.

While deepening the reform, expanding opening-up and boosting socialist construction, the CPC creatively set the direction of reform in the socialist market

⁴ *Resolution of the CPC Central Committee on Several Historical Issues of the Party since the founding of the People's Republic of China*, People's Publishing House, 1981, p. 8.

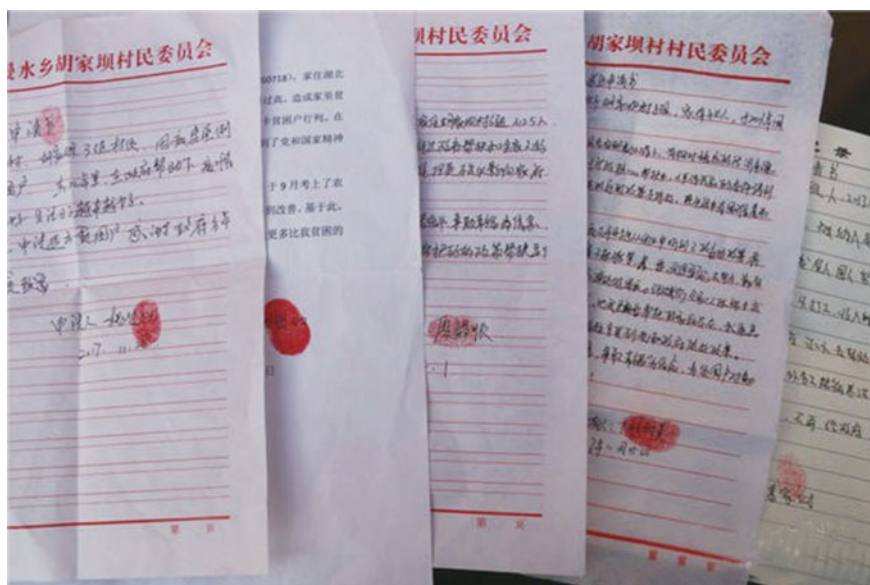
economic system, giving greater and wider play to the basic role of the market in resource allocation, and realized the successful historic transformation from a highly centralized planned economic system to a dynamic socialist market economic system, and from a closed and semi-closed system to an all-round open system, by upholding and improving the basic economic system, with public ownership playing a dominant role and diverse forms of ownership developing side by side, as well as the system of distribution under which distribution according to work is dominant and a variety of modes of distribution coexist. All these greatly liberated the productive forces and accelerated China's industrialization and modernization. In decades, China covered the journey of industrialization which had taken hundreds of years in developed countries, creating a miracle of rapid economic growth and long-term economic and social stability. From a country with relatively backward productive forces to the second largest economy in the world, from a society with inadequate food and clothing to an overall well-off society moving toward a moderately prosperous society in all respects, China has made historic breakthroughs in development, and the Chinese nation is on the journey to prosperity now.

With the development of productive forces and the steady improvement of national strength, China advanced firmly toward common prosperity during the period of reform, opening-up and socialist modernization, manifesting the trend of the development from the "pioneering prosperous" to "common prosperity". In terms of policy orientation, China became more focused on equity and took more measures to raise the income of low-income people, expand the proportion of middle-income people progressively, regulate excessive income effectively, and ban illegal income resolutely, so as to promote common prosperity. In particular, in view of the fact that rural poverty stands as the hard nut on the road to common prosperity, China issued a series of policies to strengthen agriculture, benefit farmers, and raise rural living standards, and developed a policy system for agriculture, rural areas and farmers centering on industry re-feeding agriculture and promoting urban-rural integration. The agricultural tax lasting for 2600 years was cancelled on January 1, 2006, and great achievements were made with the construction of a new socialist countryside. At the same time, the central and local governments at all levels continuously increased the financial investment in poverty alleviation. In a decade, the financial investment in poverty alleviation hiked from RMB 12.75 billion in 2001 to RMB 34.93 billion in 2010, growing at an average annual rate of 11.9%, and the investment totaled RMB 204.38 billion.⁵

Since the 18th CPC National Congress, the socialist construction with Chinese characteristics has entered a new era. Under the leadership of the CPC, the people throughout the country have promoted the five-sphere integrated plan for socialist construction in economic, political, cultural, social and eco-environmental fields, and

⁵ Information Office of the State Council, *White Paper: New Progress in Development-oriented Poverty Reduction Program for Rural China*, http://english.www.gov.cn/archive/white_paper/2014/09/09/content_281474986284672.htm, 16 November 2011.

the four-pronged comprehensive strategy⁶ of finishing building a moderately prosperous society in all respects, deepening reform, advancing the law-based governance of China, and strengthening the Party self-discipline. The CPC Central Committee with Comrade Xi Jinping at its core became more focused on ensuring the development achievements would be shared by all the people in a fairer and more equitable way. On the basis of continuous economic and social development, and steady advance to common prosperity, the CPC Central Committee clarified that by the end of 2020 China would have won the battle against poverty by lifting all rural poor people out of poverty under then standards in China, eliminating absolute poverty completely, removing all counties from the list of poverty-stricken counties, wiping out region-wide poverty, while securing basic necessities, compulsory education, basic medical care and housing for the rural poor, and ensuring that per capita disposable income of farmers in impoverished areas would increase at a higher rate than the national average, and that the indicators in key areas of basic public services would get close to the national average. In particular, the implementation of the strategies of “targeted poverty reduction” and “targeted poverty alleviation” played a key role in lifting all impoverished people in China out of poverty and helping them move toward common prosperity.



⁶ After the completion of the task for building a moderately prosperous society in all respects in China in 2021, “building a moderately prosperous society in all respects” in the 14th Five Year Plan was replaced by “building a modern socialist country in all respects”.

On December 5, 2017, five “registered poverty-stricken households” in Huijiaba Village, Manshui Township, Laifeng County, Enshi Prefecture, Hubei Province applied to the local government to be removed from the list of poverty-stricken households. *Source* “Praise to the Five farmers in Laifeng County Volunteering to Be Removed from the List of the Registered Poverty-stricken Households!”, https://www.sohu.com/a/209118368_697959

Since the 18th CPC National Congress, 98.99 million rural impoverished people have been lifted out of poverty according to applicable standards, and 832 counties and 128,000 villages have removed the label of poverty. For the first time in the history of thousands of years, the Chinese nation realized the long-cherished dream of absolute elimination of poverty,⁷ marking a groundbreaking historical achievement in China, where there is the largest population of 1.4 billion, and around the world, as well as a great contribution to the sustainable development of the whole human community. Just as President Xi Jinping said, “it is of great significance to China and the world for no other country in the world can help so many people out of poverty within such a short time.”⁸ In June, 2021, the CPC Central Committee and the State Council jointly issued a guideline on building Zhejiang into a demonstration zone for common prosperity, meaning Zhejiang would take the mission of exploring for common prosperity for the whole nation.



Beautiful New Countryside—Heling Village, Tonglu County, Zhejiang Province. *Source* Ah Hua, “Beautiful New Countryside—A Summer Vacation at Heling Village, Tonglu County”, <https://www.meipian.cn/2aeo4ipw>

⁷ Information Office of the State Council of the People's Republic of China, *Poverty Reduction: China's Experience and Contribution*, People's Publishing House, 2021, p. 11.

⁸ Xi Jinping, “Speech at The Symposium on Decisive Battle and Decisive Struggle against Poverty”, *People's Daily*, March 7, 2020.

On July 1st, 2021, on behalf of the CPC and the Chinese people, President Xi Jinping solemnly declared that through the continuous hard work of the Party and the people of all ethnic groups, China had achieved the first centennial goal of building a moderately prosperous society in all respects across China after historically eliminating absolute poverty, and began to move forward in high spirits toward the second centenary goal of building a great modern socialist country in all respects. On this new journey of modernization, China needs to make more tangible substantive progress in promoting all-round development of people, and common prosperity for all stands as a major strategic task for China to advance the modernization construction and toward the second centenary goal.

1.3 Foundations for Common Prosperity in the New Era

After a hundred years of exploration by the CPC, especially the more than 70 years of socialist construction in China led by the CPC, the cause of socialism with Chinese characteristics has entered a new era, and the socialist system with Chinese characteristics has become a systematic mechanism full of new vitality. Besides, China has completed the building of a well-off society in all respects and the first centennial goal at the 100th anniversary of the CPC, providing a more perfect institutional foundation, a more solid material foundation and a more active source of spiritual strength for common prosperity for all.

The socialist system with Chinese characteristics is a scientific institutional system formed through long-term practice and exploration of the CPC and Chinese people. It is the fundamental guarantee for contemporary China to develop and progress and to make great achievements. It also constitutes the institutional guarantee for the second centennial goal at the centenary of the founding of the PRC, the historical process of the great rejuvenation of the Chinese nation and common prosperity for all. The socialist system with Chinese characteristics is a social system and a governance system under the guidance of Marxism, integrated with China's national conditions, deeply rooted in Chinese culture, and featured strong vitality and great advantages, and it has boosted and will continuously promote the progress and development of China's modernization, helping ensure common prosperity for all.

The practice has fully proven many significant advantages of the socialist system with Chinese characteristics and China's national governance system in various aspects, such as maintaining political stability, developing people's democracy, ensuring fairness and justice, concentrating resources on major tasks, uniting the people for development, integrating socialism with the market economy, liberating and developing productive forces, advancing culture and ideology, promoting common prosperity, maintaining social vitality, training outstanding talents, safeguarding national sovereignty and security, and it is the source of strengthened self-confidence in the path, theory, system and culture of socialism with Chinese characteristics. For example, the socialist market economic system and the basic socialist economic system initiated by the CPC organically can integrate a better

governance and the decisive role of the market in resource allocation, giving full play to both advantages of the market economy and the socialist system. Developing the market economy in a socialist country is a great initiative of the CPC, and a key factor for the great success of China's economic development. Since entering the new era, under the leadership of the CPC, China has greatly promoted the five-sphere integrated plan and the four-pronged comprehensive strategy in a coordinated way,⁹ to further improve the socialist system with Chinese characteristics and boost the modernization of the national governance system and governance capacity, to provide a perfect institutional guarantee for common prosperity for all.

From the perspective of the modernization process, China has made remarkable achievements in its economic modernization, and now is basically prepared for further promotion of common prosperity for all. After a century of great rejuvenation of the Chinese nation, China is standing at a new historical starting point for a new stage of development after finishing building a moderately prosperous society in all respects. At this current historical starting point, China has managed to keep healthy, balanced, coordinated and sustainable economic development, making it one of the innovative countries. Meanwhile, industrialization has been basically realized in China, the level of informatization and the quality of urbanization has been significantly improved, and remarkable achievements have been made in agricultural modernization and the construction of a new socialist countryside. People's democracy has been strengthened within an improved democratic system, and the cultural soft power has been significantly boosted. People's living standards have improved in an all-round way, and prominent progress have been made in the construction of a resource-saving and environment-friendly society.

Particularly, from the perspective of the industrialization process, since the reform and opening-up, China has greatly accelerated its industrialization process. The industrialization theory of economics generally divides the process of industrialization into five stages: pre-industrialization, early industrialization, middle industrialization, late industrialization and post-industrialization. Based on the basic understanding of the connotation of industrialization, the authors employed five indicators, namely, per capita GDP, the proportion of output value by three industries, the proportion of the added value of manufacturing industry in the total added value of commodities, the ratio of the urban population, and the proportion of employees in the primary industry to the total, and allocate them different weights. Taking the empirical value range of these five indicators in developed countries at different stages of industrialization as the standard values, the authors constructed the comprehensive index of the industrialization level. Through continuous tracking and calculating the industrialization level index for many years, they reckoned that since 2011 China

⁹ The "five-sphere integrated plan covers the five aspects of constructions of economy, politics, culture, society and eco-environment. The "four-pronged comprehensive strategy" refers to the construction of a moderately prosperous society, deepening reform, implementation of the rule of law and strengthening the Party discipline in a comprehensive manner. After a well-off society was realized in an all-round way in China in 2021, "the construction of a moderately prosperous society in all respects" in the 14th Five-Year Plan has been replaced by "the construction of a great modern socialist country in all respects".

has entered the late stage of industrialization. In 2019, the comprehensive industrialization index of China was 92, which was very close to the comprehensive index of an industrialized country at 100.¹⁰ China, having completed more than 90% of the industrialization process, is closer to achieving industrialization than any time in history, or it can even be regarded that China has basically realized industrialization, meaning the goal proposed at the 16th CPC National Congress and reaffirmed at the 17th and 18th CPC National Congresses to basically achieve industrialization by 2020 has now generally been achieved.



The container throughput of Shanghai port tops the world for 12 consecutive years, with the contribution of Yangshan Port exceeding 50%. The picture shows the busy scene of phase IV automated terminal of Yangshan port, the largest automated container terminal in the world, where the independently developed intelligent system is adopted for the loading, unloading and transportation. Source “Steady and Strengthened Efforts to Ensure Supply and Smooth Flow at Shanghai Port”, http://news.sohu.com/a/538278225_162758

In terms of specific economic indicators, China has made remarkable and brilliant achievements in its economic development, laying a more solid material foundation for the target of common prosperity for all. In 2020, China recorded a GDP of RMB 101,598.6 billion, with per capita GDP exceeding 10,000 US dollars, and the economic aggregate of China accounted for 17.3% of the global total. Since China surpassed Japan and became the world’s second-largest economy in 2010,

¹⁰ Huang Qunhui, Li Fangfang, *Report on China’s Industrialization Process (1995–2020)—Review of the 13th Five-year Plan and Prospect of the 14th Five-year Plan*, Social Science Academic Press, 2020, p. 45.

China has made an economic miracle as now China is the second largest economy, the largest manufacturing power and the largest trading country around the world. Meanwhile, China has established the world's most complete industrial system and developed and complete infrastructure, basically realizing industrialization. As the world's largest industrial producer, China leads in the output of more than 220 of 500 major industrial products, as well as the output of major manufactured products like raw coal, cement, crude steel, steel, chemical fertilizer, electric energy production and TV sets for many consecutive years. In the early days after the founding of the PRC, Mao Zedong had ever regretfully mentioned that it was shameful for China to have no capacity of making even a single automobile or tractor,¹¹ but in 2020, 25.325 million motor vehicles and 70,432 large tractors were manufactured in China. China has literally become the largest manufacturing country. In 2013, China became the world's largest trade country in goods with products made in China being exported to more than 230 countries and regions in the world, matching its status as the leading manufacturing country since the manufacturing industry produces the most important goods for trades. All of these have laid a solid material foundation for a new journey of socialist modernization in an all-round way and further promotion of common prosperity for all.

The promotion of common prosperity in China in the new era also depends on the proactive spiritual force under the leadership of the CPC. As President Xi Jinping said: "A hundred years ago, the pioneers of Communism in China established the Communist Party of China and developed the great founding spirit of the Party, which is comprised of the following principles: upholding truth and ideals, staying true to our original aspiration and founding mission, fighting bravely without fear of sacrifice, and remaining loyal to the Party and faithful to the people. This spirit is the Party's source of strength. Over the past hundred years, the Party has carried forward this great founding spirit. Through its protracted struggles, it has developed a long line of inspiring principles for Chinese Communists and tempered a distinct political character."¹² After a hundred years of struggle and inherited from generation to generation, the Chinese Communists have strong spiritual strength.

In particular, entering the new era, under the direction of President Xi Jinping of exercising full and strict governance over the Party, the CPC, bearing in mind the hard truth that it takes a good blacksmith to make steel, has been enhancing the political consciousness that full and strict governance of the Party constitutes a journey to which there is no end, and constantly advancing great new projects of Party building in the new era under the guide of the CPC political construction. The spiritual strength of the CPC is more proactive, providing a more powerful spiritual guarantee for the realization of common prosperity for all. Practicing people-centered and people-first philosophy, the CPC sets common prosperity for all as a great and noble goal. As the largest ruling party with 95 million members, the CPC has always represented the

¹¹ Editing group of this book, *A Concise History of the Communist Party of China*, People's Publishing House, Communist Party History Publishing House, 2021, p. 174.

¹² Xi Jinping, *Speech at the Ceremony Marking the Centenary of the CPC* (July 1st, 2021), People's Publishing House, 2021, p. 8.

fundamental interests of the overwhelming majority of the Chinese people, stands with them through thick and thin and shares a common fate with them, and strives to unite and lead the Chinese people in working incessantly for a better life, which constitutes the foundation of the ideal and belief for common prosperity in China.

While fully recognizing the institutional guarantee, material foundation and spiritual strength for common prosperity in China, it is also necessary to be aware of the unbalanced and inadequate development in China, which presents the basic condition in the new era of development, and the challenges and key difficulties as well, to promote common prosperity.

In general, the modernization construction in China is unbalanced and it needs to coordinate the development of the economy and society, between rural and urban areas, among industries and regions. The level of informatization, intelligentization and digitalization still needs further improvements, there is large gap between the economic development of various regions, and due to the lack of benign interactive development between urbanization and industrialization, the urbanization process lags behind that of industrialization. With still large gaps between urban and rural areas, the quality of people-oriented urbanization needs to be improved. For insufficient coordination between agricultural modernization and industrialization, agricultural modernization still constitutes a weak link, hindering the process of China's modernization. From the perspective of the income distribution, generally, there is still a huge income gap between urban and rural regions. In recent years, the Gini coefficient of distribution in China stood as high as above 0.46–0.47, with the proportion of middle-income groups still low. Despite the decreases in recent years, the ratio of disposable income between urban and rural residents in China was 2.56 in 2020. The basic public services for different groups are not equal, in particular the quality and level of basic public services in different regions and between urban and rural areas. Therefore, facing the unbalanced and inadequate development, it is a major mission for the CPC in the new era to promote common prosperity with high-quality development, guided by the new concept of coordinated and shared development.

1.4 Basic Ideas and Key Tasks of Common Prosperity

Common prosperity, as a great and arduous historical task, cannot be achieved overnight and it is a long process. In the face of this historical task and great challenge, China adopts a solid general guideline to adhere to the people-centered philosophy of development, promote common prosperity through high-quality development, properly balance the relationship between equity and efficiency, and establish basic institutional arrangements enabling coordinated and supplementary primary, secondary, and tertiary distribution. Besides, the governments should carry out precise and intensify the efforts of distribution regulation through taxation, social insurance, and transfer payments, to help expand the relative size of the middle-income group, raise the incomes of low-income groups, properly adjust excessive incomes, and prohibit illicit income, creating an olive-shaped distribution structure that is larger in the

middle and smaller at both ends. By doing so, China is expected to promote social fairness and justice and people's well-rounded development, and make solid strides toward the goal of common prosperity for all.¹³

This means that in the new era of development, China will seek solid progress toward common prosperity through high-quality development under the guidance of the new philosophy of pursuing innovative, coordinated, green and open development, while constantly liberate and develop social productive forces through high-quality development, create and accumulate social wealth, and prevent polarization through improving distribution system. More generally speaking, to achieve the goal of common prosperity, China must first make the "pie" of development bigger and better through the joint efforts of all Chinese, before equally distributing the "pie" through reasonable institutional arrangements, which becomes a major challenge for governments at all levels as it presents higher requirements for scientific, democratic and law-ruled governance. Therefore, to promote significant substantive progress toward common prosperity for all, it needs to accelerate the modernization of governance capacity and governance system, as a better institutional guarantee for the realization of common prosperity.

On one hand, to make the "pie" bigger and better, China needs to maintain the economic growth in a reasonable range, to achieve the goal of bringing per capita GDP to that of moderately developed countries in 2035. As "prosperity" is the premise for "common prosperity", China, a middle-income country, should first get "prosperous", by making the "pie" bigger, namely continuous emancipation and development of the productive forces through deepened reform and opening-up and maintaining an economic growth within a reasonable range through innovation. In addition, according to the law of modernization, the potential economic growth rate will begin to decline in the late industrialization and post-industrialization stages. In this regard, in the new development era, it is necessary to secure the potential economic growth rate with stable and continuous macroeconomic policies and effective coordination between the policies for the supply side structural reform and the demand side management, while to steadily increase the potential economic growth rate through smoother national economic cycle by deepening reform in systems and mechanisms, further expanding opening-up and improving scientific and technological innovation and high-level self-reliance and self-improvement.

On the other, to achieve common prosperity, it needs better allocation of the "pie" and perfecting distribution system, through reasonable institutional arrangements during high-quality development and the establishment of a new development pattern. The major contradiction in China in the new development era is the contradiction between the growing need for a better life and unbalanced and inadequate development, and how to secure balanced, coordinated and inclusive development and promote high-quality development would be the key to the modernization in the new development era. The unbalanced and insufficient distribution constitutes a major contradiction restricting high-quality development, and it is also a key constraint on smooth circulation among production, exchange and consumption sectors for a

¹³ Xi Jinping, "Making Solid Progress Toward Common Prosperity", *QiuShi Journal*, No. 20, 2021.

high-level dynamic balance between supply and demand, from the perspective of the establishment of a new development pattern. The major problems in the distribution field are as follows: in current income distribution pattern, the share of resident disposable income and labor remuneration in primary distribution needs to be increased, and the income gaps among industries and between urban and rural regions are still relatively large. Although the income gap between residents has narrowed since 2008, it is still relatively large, and the Gini coefficient basically stays between 0.46 and 0.47. The equalization of public services needs to be further promoted, and the property income gap among residents will continue to expand.

In response to these problems, in the new development era, it should deepen the reform in the distribution system centering on the all-round development of people, focus on the inclusiveness and coordination of economic growth in primary distribution, further strengthen secondary distribution and pay more attention to fairness and justice, and emphasize corporate social responsibility and socialist core values in the tertiary distribution. China should improve social mobility, gradually raise the income, wealth stock and public services for all people, significantly expand the middle-income group, achieve equalization of basic public services, and prominently narrow the development gap between urban and rural areas and the gap of living standards, which will not only directly promote the substantive progressed to common prosperity, but also the formation of a domestic demand pattern based on resident consumption, contributing to the accelerated construction of the “dual circulation” development paradigm, in which domestic and overseas markets reinforce each other, with the domestic market as the mainstay.

Based on the basic ideas mentioned above for common prosperity, China needs to complete the following six key tasks, to realize high-quality development.

First, it needs to seek for a balanced, coordinated and inclusive development to progress toward common prosperity, which requires the achievements of the coordinated development will be shared among people. With balanced regional development, coordinated industrial development, and coordinated corporate development featuring competition, cooperation and interdependence, not only China will be prosperous due to further developed productive forces, but also the gap between the rich and the poor will be narrowed and the development fruits will be widely shared.

In terms of regional development coordination, China should strengthen the role of coordinating strategies for regional development in promoting common prosperity, to improve regional coordinated development, with coordinated and balanced policies in various regions. Regional development strategies should be people-centered, respect objective economic laws, take the comparative advantages of various regions, allow rational flow and efficient agglomeration of various factors, effectively increase ecological compensation, financial transfer payment and benefit compensation to narrow the differences in regional per capita financial expenditure, strengthen the support to less developed regions and vigorously improve the equalization of regional basic public services and the accessibility of infrastructure.

In terms of coordinated urban and rural development, China should promote the strategies for urbanization and for rural revitalization, to boost coordinated development in urban and rural areas, narrow the income gap between urban and rural

residents, develop new relations between industry and agriculture and between urban and rural areas featuring mutual promotion between industry and agriculture, mutual complementation of urban and rural areas, coordinated development and common prosperity, accelerate agricultural modernization, stimulate the interconnected development of large, medium and small cities, small towns and rural areas relying on urban clusters and metropolitan circles, perfect the institutional mechanism for integrated urban-rural and industrial development, and establish a policy system supporting equal exchange and two-way flow of urban and rural production factors.

In terms of coordinated development among industries, China should remedy the structural imbalance between the real and virtual economy, deepen the structural reform on the financial supply side, develop an inclusive modern financial system, speed up the construction of financial systems and mechanisms for the real economy, promote the coordinated development of finance, real estate and the real economy, and narrow the income gap among various industries. In terms of coordinated corporate development, it is necessary to coordinate industrial policy and competition policy, strengthen the basic role of competition policy, build a good development ecology of competition, cooperation and interdependence among large and medium-sized enterprises, state-owned and private enterprises, Internet platform enterprises and general traditional enterprises, regulate unreasonable income and highlight corporate social responsibility.

Second, China should take measures to expand the size and improve the quality of middle-income groups. The middle-income group generally refers to people who have a middle income and lead a relatively well-off life in an economy. According to the National Bureau of Statistics (NBS), in 2018 there was a middle-income population in China of about 400 million, including 400 million or so families of three with an annual household income between RMB 100,000 and 500,000, amounting to about 29.4% of the total population. Expanding the size and proportion of middle-income groups and building an olive-shaped income distribution pattern are effective ways to progress to common prosperity. By optimizing and improving the human capital structure, industrial structure and basic public service system, China can achieve the unity of efficiency and equity, and expand the middle-income groups in the process of high-quality development.

On one hand, it is necessary to implement targeted policies by taking full consideration of the differences between urban and rural areas, among various regions and groups in China, a vast country, and to strengthen the construction of public services and optimize the reallocation of resources based on economic development strategies, to respond the needs of potential middle-income groups. Specifically, these policies include improving the quality of higher education, to help college students get adaptable to developing society quickly, enhancing the training of skilled personnel and increasing the incomes of skilled workers, improving the business environment and encouraging small and medium-sized business owners to further expand, deepening the reform in the household registration system to facilitate the registration of agricultural people in urban areas and to stabilize employment, improving the wages and welfares of civil servants, especially the front-line civil servants at the grass-roots level and the grass-roots employees of state-owned enterprises and institutions, and

raising the property income of urban and rural residents from housing, rural land and financial assets, etc.

On the other, China should actively improve the quality of people-centered urbanization, and take bases on high-quality urbanization and accelerated construction of urban agglomeration and metropolitan areas, to improve the quality of human resources, well-being and income of middle-income groups.

Third, China should provide equal basic public services through welfare programs that are general and guaranteed. Guaranteed equity and livelihood are the most basic connotations of common prosperity. Common prosperity for all must put priority on people's rights to survive and develop, and the government should provide equal public services and carry out general and guaranteed welfare programs, to meet the demand for basic rights of every citizen and fully perform their basic duties. The equalization of basic public services comes to the core of secondary distribution. China has set "seven targets" of ensuring people's access to childcare, education, employment, medical services, elderly care, housing, and social assistance, to promote the equalization and the quality of basic public services in pace with economic development.

Specifically, in the new development era, China will issue a series of policies to provide equal public services, including increasing the investment in inclusive human capital, effectively reducing the educational burden on poor families, improving the education level of children from low-income families, enhancing the pension and medical and social security systems, gradually narrowing the gap between workers and residents and between urban and rural areas in terms of social insurance financing and benefits, and steadily raising the basic pensions for urban and rural residents. Besides, China should enhance the guaranteed social assistance system, reduce the differences between urban and rural standards of social assistance, and gradually raise the basic living allowances for impoverished urban and rural residents to meet the basic living standards, perfect housing supply and security system, and so on.



On August 19th, 2009, several farmers in Shouguang, Shandong Province received their pension passbook for new rural social pension insurance. *Source* Xinhua News Agency, “Happy Famers with Their Pension Passbooks under the New Type of Rural Social Old-age Insurance System”, http://www.gov.cn/jrzq/2009-08/19/content_1396671.htm

Fourth, China needs to rationally control the enlarging income and wealth gaps and improve the income and wealth distribution system, mainly involving: effectively increasing the proportion of labor remuneration in primary distribution, establishing a unified labor market to expand employment and deepen the reform in wage system to increase reasonably wages of low- and middle-income workers; gradually reducing excessive income gaps due to irregulated distribution models, reasonably adjusting excessive incomes, eliminating unreasonable income gaps caused by imperfect system and mechanism at a steady pace, strengthening regulation on income distribution, sorting out unreasonable incomes, resolutely banning illegal incomes, protecting property and intellectual property rights, protecting legitimate wealth, firmly opposing the disorderly expansion of capital, strictly enforcing anti-monopoly supervision, mobilizing the enthusiasm of entrepreneurs, promoting the regulated and healthy development of various types of capital; giving full play to the role of redistribution in regulating the income gap, improving the redistribution regulation mechanism through major means like tax, social security and transfer payment, and focusing on tax regulation, especially consumption taxes; prudently exploring effective measures to adjust the gaps in wealth distribution as the cumulative effect of property is leading a wealth gap larger than income gap. Besides, under the guideline of “housing residence instead of vicious speculation”, China should control housing prices, and introduce a housing property tax timely, to effectively curb the enlarging wealth gap, in particular the major problem that real estate has become the main stimulating factor to widening wealth gap (real estate accounts

for 80% of China's household wealth). China should take measures specially for housing sector, like slowing down the growth rate of housing prices and debasing the expectations for more rises, implementing housing property tax step by step, and resuming the inherent function of houses, to make housing prices affordable to low-income groups, while setting limits for the number of houses held by same homeowners, to help to narrow the wealth gap. In addition to housing property tax, inheritance tax and gift tax are important means to solve the accumulating property stock in developed countries.

Fifth, China should make progress to common prosperity for farmers through expanding and consolidating the achievements of poverty alleviation. Narrowing the urban-rural income gap and promoting common prosperity for farmers in rural areas is a key to common prosperity throughout China, so it would be the basic path to promote common prosperity for farmers and rural areas to significantly narrow urban-rural gaps, comprehensively boost rural revitalization, accelerate the process of agricultural modernization, stimulate comprehensive urban-rural integration, and share the achievements through co-construction between urban and rural areas. From the perspective of a broad development strategy, it should integrate the development of new industrialization, urbanization, informatization and agricultural modernization, as the most fundamental strategy for rural revitalization, agricultural development and prosperity of farmers. On one hand, China should jointly consolidate the achievements of poverty alleviation and ensure that there is no large-scale returning to poverty or new poverty-stricken population, by paying special attention to low-income groups in rural areas and raising their incomes. On the other, it should accelerate rural and agricultural development, strengthen the construction of rural infrastructure and public service system, improve the rural living environment, promote rural revitalization in an all-round way, encourage agricultural industrialization, revitalize rural assets, and increase farmers' property income, to enable more rural residents to become prosperous through hard work.

Sixth, it should attach importance to the all-round development of people, to realize common prosperity for people's spiritual life. As the essence of socialism and an important feature of China's modernization, common prosperity enables the all-round development of people, meaning common prosperity for people's both material life and spiritual life, and finally the organic unity of both material and spiritual common prosperity for all. Meanwhile, it is necessary to understand the relationship between spiritual civilization and material civilization: material common prosperity serves as the material basis for spiritual common prosperity, which in turn constitutes an ideological motive and guarantee to the promotion and realization of material common prosperity. While progressing to common prosperity, China should strengthen the development of spiritual civilization, uphold core socialist values, accelerate the construction of a modern public cultural service system, encourage innovation in the cultural industry, enrich the supply of advanced cultural products and services, and facilitate the development of new cultural enterprises, cultural formats and cultural consumption patterns of high quality, efficiency and core competitiveness, so as to meet the diverse, multi-level and various spiritual and cultural needs of the people.

Chapter 2

How to Make the “Pie” Bigger and Better



To achieve the goal of common prosperity for all, first of all, the country should get prosperous, with the capacity of making a “pie” big and good enough. In just a few decades, China has turned into a moderately prosperous society in all respects from a country that used to be poor and weak, making two miracles of rapid economic development and long-term social stability. By 2021, China recorded an economic aggregate of RMB 114 trillion, becoming the second largest economy in the world, and a per capita GDP of USD 12,500, topping the global average (USD 12,100). For a country with a population of 1.4 billion, these were really great achievements. The process and experiences of economic development in China are a topic of the economics of great significance to the world today. In order to achieve common prosperity for all in the future, China has to continue to make the “pie” bigger and better, which is exactly in line with the target for the new development era, in which China will fully carry out the new development philosophy and accelerate the construction of a new development pattern.

2.1 Making the “Pie” Bigger: How the Economic Miracle Occurred

Before China made the miracle of rapid economic growth, there was a tortuous road. In more than 70 years since the founding of the PRC, the economic development in China can be divided into three major periods: the first period from 1949 to 1977 when China completed the socialist revolution and began socialist construction, the second period from 1978 to 2012 when China carried out the reform and opening-up policy and socialist modernization, and the third period from 2013 on when China entered a new era of socialism with Chinese characteristics.

2.1.1 Over the Period from 1949 to 1977, China Completed the Socialist Revolution and Began Socialist Construction

In the first almost 30 years after the founding of PRC, China developed an economy of a planned economic system. The economic development strategies then placed priority on accelerating the development of heavy industry, featuring that the governments were the main investors and resources were allocated as instructed by state mandatory plans. In the early days after the founding of the PRC, the productivity was low in China due to the wars. Though the industrialization in China had continued for nearly a century by then, there was little economic heritage to the PRC. At that time, China had an industry not comparable to that of the Soviet Union in 1928, or even that of other emerging independent countries like India of the same time, meaning China embarked on its economic development journey as a large agricultural country in general with a large population, weak economic foundation and backward economy. By the end of 1952, as the land reform had been basically completed, the national economy had been recovered to pre-war level, and the Korean War was expected to come to an end, China decided to begin large-scale economic construction from 1953, and carried out the first five-year plan. Meanwhile, the CPC Central Committee proposed to realize the country's socialist industrialization and the socialist transformation of agriculture, handicrafts, and capitalist industry and commerce step by step over a fairly long period of time.

The 156 key industrial projects mapped out in the first five-year plan initially laid a foundation for the economy of new China. However, the economic development in China was disturbed by later movements. With extremely unstable economic policies, several investment expansions and contractions, and frequent political movements, together with a harsh external environment, the socialist economic construction in China experienced up and downs as a whole. However, after nearly 30 years of economic development, China made great achievements in economic construction, gradually established an independent and relatively complete industrial system and national economic system, and laid a solid industrial foundation, especially for heavy industry.

2.1.2 Over the Period from 1978 to 2012, China Carried Out the Reform and Opening-Up Policy and Socialist Modernization

1978 marked the beginning of the second period when China decided to implement the policy of reform and opening-up. In a socialist country, China tried to shift from a planned economy to a market economy through step-by-step reform, and in turn make the market the decisive factor to resource allocation, instead of governmental plans. Through these low-cost export-oriented industrialization strategies and

the construction of an open economy, China continued to promote industrial structural optimization and upgrades. At first, the reform focused on the rural economic system and the spreading of the rural contract responsibility system, which greatly liberated rural productive forces and improved the efficiency of primary industry. At the same time, it also caused a large number of rural surplus labor, who, as “migrant workers”, contributed to China’s rapid industrialization. Rural reform and agricultural development laid the initial solid foundation for China’s rapid economic development.

The year of 1984 witnessed the economic system reform shift its focus to cities, and emphasized on boosting business dynamism. As emerging township enterprises and private enterprises grew rapidly, state-owned enterprises (SOEs) gradually became independent economic entities in the market economy rather than being owned by the governments, and a large number of foreign-funded enterprises entered China, China progressed toward industrialization quickly. At first, the light industry developed fast, as a correct to the structural imbalance due to the strategic priority on heavy industry in the planned economy era. Then, the economic structure in China was upgraded quickly, since the heavy industry and chemical industry turned out to be the driving force to Chinese economic development, for the consumption focus shifted to durable consumer goods. At that time, China greatly tightened its connection with the world with an apparently more export-oriented economy, and entered the WTO in 2002, marking a great success of the export-oriented industrialization strategy. From the perspective of fund demand for industrialization, with the deepened reform in the fiscal system, financial system, and investment system, a diversified financial system and investment subjects also began to emerge and develop, providing corresponding financial guarantee for industrial development.

From the perspective of regional economic development, while carrying out reform and opening-up, China also adopted an unbalanced development strategy, aiming at laying priority on the economic development in eastern coastal areas as national economic growth pole, and then leading and driving the development of the central and western regions. In 1980, special economic zones (SEZs) were first set up in Shenzhen, Zhuhai, Shantou in Guangdong Province and Xiamen in Fujian Province. In 1984, 14 other coastal cities including Dalian, Tianjin, Shanghai and Guangzhou were opened, and industrial parks such as economic and technological development zones and national economic development zones were gradually established. In the 7th Five-year Plan (1986–1990), the strategic guideline was made clear that China would promote regional economic development with three economic belts in eastern, central and western China. In 1995, China put forward the concept of coordinated regional economic development, to steadily narrow the development gap between different regions, and issued and continues to boost a series of key regional strategies such as Large-scale Development of Western China, the Rise of Central China and the Revitalization of the Old Industrial Base in Northeast China.



Luohu district, Shenzhen special economic zone, Guangdong province, under construction, photographed in May 1981. *Source* Xinhua News Agency, “City · Changes|Memory of the 40 Years’ Development of Shenzhen Special Economic Zone”, <https://baijiahao.baidu.com/s?id=1676053721606751792&wfr=spider&for=pc>

This period saw a booming economy in China, and China recorded an average annual economic growth rate of 9.8%, much higher than the global average of 2.8% at the same time. Besides, the ranking of China’s GDP rose from the 10th to the 2nd globally, while China managed to evolve the economic structure from labor-intensive to capital intensive, and even toward technology intensive. It proved that China’s economy had strong growth resilience as it resisted the impact of the 1997 Asian Financial Crisis and the 2008 International Financial Crisis, and resumed the growth quickly. From the perspective of opening-up, since 2003 China has taken the lead around the world in terms of export growth rate, which stayed above 30% for many consecutive years. In 2009, China became the largest goods exporter in the world, surpassing Germany. In 2013, the total goods in import and export of China surpassed the United States, ranking first and accounting for 11% of the total world trade in goods, doubling that of 2003. Since 2011, the utilization of foreign investment in China has risen to No. 2 in the world and has remained the 1st among developing countries for many consecutive years.

2.1.3 A New Era of Socialism with Chinese Characteristics Since 2013

The 18th CPC National Congress marked the beginning of a new era of socialist construction with Chinese characteristics. From then on, China has made a series of innovations in the theory and policies of economic reform and development, and also

great achievements in economic construction. In November 2013, at the 3rd Plenary Session of the 18th CPC Central Committee, it was stressed that the core of economic system reform was to properly handle the relationship between the government and the market, to enable the market to play a decisive role in resource allocation and to give better play to the role of the government, signaling a major breakthrough in theory and a major innovation in practice. The basic socialist economic system, with public ownership playing a dominant role and diverse forms of ownership developing side by side, as well as the system of distribution under which distribution according to work is dominant and a variety of modes of distribution coexist, has been further improved, and the same is true for the socialist market system of high standard and fair competition. Since the economic growth rate in China has slowed down a bit, from high to medium-high, the economic structure has been further optimized and upgraded, and the motives for economic growth have been shifted to technological innovation from expansion of productive factors in quantity, the leadership of China made a major conclusion of the new economic normal and put forward a new philosophy of innovative, coordinated, green, open and shared development, to promote high-quality economic development, meaning GDP will not be the only measure any more.¹

From 2015 and on, taking deepening the supply side structural reform as the main guideline for economic work, China has been initiatively promoting the elimination of excess industrial capacity and inventory, reducing the operating costs and liabilities of the real economy, increasing investment in “weak links” like infrastructure and people’s livelihood, and boosting the building of a manufacturing power and the construction of a modern economic system, which has greatly driven the green and intelligent transformation and upgrade of industrial structure in China. In particular, China has implemented innovation-driven strategies, and accelerated the construction of an innovative country, believing that innovation will be the first driving force for development. Due to the ecology for innovation is constantly optimized and the investment in scientific research and innovation is on the rise, new industries, new formats and new models flourished in China. In response to the three major problems of major risks in economic operation, targeted poverty alleviation and pollution control and prevention, China has taken comprehensive measures and made great achievements.

Entering the new era, while continuing existing strategies for economic development, China also promotes a series of major strategies for coordinated regional development, including those for the coordinated development of Beijing, Tianjin and Hebei, the development of the Yangtze River Economic Belt, the construction

¹ GDP used to serve as the only measure for the selection and promotion of talents and leading cadres, meaning that leading cadres of a region with fast economic growth would get promoted. To some extent, this evaluation method was conducive to high regional economic growth rate. The competition for a higher economic growth rate among regions was regarded as an important drive for the rapid economic growth of China in many theoretical studies. However, simply taking GDP as the only index for assessment also led to the misleading performance of many local governments, resulting in the waste of resources, environmental pollution and harms to people’s livelihood, greatly affecting the quality of economic development.

of Greater Bay Area of Guangdong, Hong Kong and Macao, the integrated development of the Yangtze River Delta, the ecological conservation and high-quality development of the Yellow River Basin, and all-round reform and opening-up in Hainan, which all made significant progress. New strategies for economic development focus on the synchronous development of “four modernizations” of new industrialization, urbanization, informatization and agricultural modernization. Besides, China proposed a new urbanization strategy centering on people, began to implement the rural revitalization strategy, and put forward the Belt and Road Initiative, to develop a new pattern of all-round opening-up wider, broader and deeper. After achieving the first centennial goal of the establishment of a moderately prosperous society in all respects, China has seized the momentum to embark on a new journey of building a modern socialist country in all respects, marching toward the second centennial goal in a new era of development. In the new development era, guided by the new development philosophy, China has begun to accelerate the construction of the “dual circulation” development paradigm, in which domestic and overseas markets reinforce each other, with the domestic market as the mainstay.

In the new era, China has made great achievements in economic development, and significantly improved the balance, coordination and sustainability of the economic growth. Specifically, China has recorded an economic aggregate of more than RMB 100 trillion, per capita GDP exceeding USD 10,000, advanced economic, scientific and technological, and comprehensive national strength to a new level, and finished the establishment of a moderately prosperous society in all respects. In one word, China is on an economic development road of higher quality, greater efficiency, equity, sustainability and stability. Especially in the face of Sino-US economic and trade frictions since 2018 and the impact of COVID-19 since 2020, China has proven its economic resilience by maintaining a positive and relatively high growth rate. While well coordinating the relationship between epidemic prevention and control and economic and social development, China recorded a GDP growth rate of 2.3% in 2020 from a year ago, making it the only major economy with positive economic growth in the world. In 2021, the GDP of China reached RMB 114.4 trillion, marking an increase of 8.1% over the previous year. Compared to 2019, the average growth rate in 2020 and 2021 reached 5.1%.



During the period of the 13th Five-Year Plan, in the face of complex external environment and various risks and challenges, China's has secured high-quality economic development among the historic achievements in many fields. Source Chinadaily.com.cn, “An Interpretation of the 13th Five Year Plan Through Figures: Remarkable Achievements in China's High Quality Economic Development”, http://www.cac.gov.cn/2020-10/26/c_1605275806662339.htm

2.1.4 Key Elements and Important Experiences of China's Economic Miracle

A study into economic history and economic thought history can fully demonstrate that for late developing countries, an active, effective and strong national leadership is the key to economic catch-up, and was also a key element for China's rapid economic development and the economic miracle. Theoretically, the role of national leadership lies in shaping the “alternative conditions” necessary for economic catch-up which some late developing countries do not have. And it is not only reflected in general industrial policies such as tariff protection and support for infant industries, but also in all aspects of the entire economic and social system, including the political system, education system, infrastructure, legal system, resource allocation mechanism and so on.

As the top political leadership in China, the CPC has led and promoted China's modernization and economic development. Although the economic development in China has not been smooth all the way, the CPC, always remaining true to its original aspiration and keeping its mission in mind, has led the Chinese people to embark on road of modernization with Chinese characteristics successfully. While exploring socialist modernization, and facing a complex and changing environment, under the strong leadership of the CPC, China has scientifically formulated and adjusted its

short- and medium-term economic modernization goals (for example, it has continuously formulated and implemented 14 five-year plans for national economic and social development), unswervingly adhered to the long-term goal of building a great modern socialist country, fully tapped the potential and grasped opportunities, and achieved the miracle of rapid economic development. In this sense, the leadership of the CPC not only is the most essential feature of socialism with Chinese characteristics and the greatest advantage of the socialist system with Chinese characteristics, but also was the most critical element in shaping the road toward modernization with Chinese characteristics and making the economic miracle come true.

Under the leadership of the CPC, the key to China’s aggressive progress toward economic modernization and the miracles of rapid economic development lies in that it not only followed the basic common laws of economic development and modernization in a large country, but also took the unique national conditions into consideration, therefore it finally finds the path of economic development of Chinese characteristics. As a late-developing country, China has neither fallen into the Latin American Trap of the 1970s and 1980s, nor chosen misleading shock theory as these transition countries in Eastern Europe did in early 1990s. While the whole world worshiped Neo-liberalism and the Washington consensus, China blazed a new path through Beijing Consensus, for the development of a socialist market economy with Chinese characteristics, which takes bases in the essential national condition that China is at the primary stage of socialism. Besides, China made its choice after giving full consideration to the political principles that China has to uphold the socialist system under the leadership of the CPC, to the initial economic condition that China was a late developing agricultural country with a large population and low per capita income when founded, to the social environment of a typical “dual structure” with a large agricultural population, and to a relatively complete industrial foundation thanks to the development strategies that placed priority on heavy industry in the period of the planned economy. Furthermore, China followed the law of industrial evolution and economic development, and the overall development trend of economic globalization, while developing an economic incentive mechanism in line with the law of marketization, and a development logic adaptable to interactive and coordinated industrialization and urbanization.

Apart from these above-mentioned key elements in a general sense, the rapid economic development in China, according to specific experiences, had several features worth noting as follows.

First, it’s vital to maintain a stable environment for economic development before “seeking progress in stability”. A stable social and political environment is a fundamental prerequisite for solid and continuous progress to economic modernization. Since the reform and opening-up, though there have been various problems and challenges, China has always adhered to the guiding ideology of “taking economic development as the central task”, carried out “step by step” reform, set “seeking progress in stability” as the general tone for economic reform and development, and taken initiative to establish a harmonious and stable environment for development, to ensure a stable economic operation at first, and then continuously boost the

reform and structural adjustment, to promote the steady development of industries and modernization in China.

Second, it's important to effectively utilize basic elements of resources and optimize the allocation of economic elements according to “local conditions”. China is the most populous country, which constitutes a fundamental feature of China. The rural contract responsibility system getting popularized since the reform and opening-up and rapidly developing township enterprises have not only met the basic living demand of farmers, but also untied the bond between a large portion of the agricultural population and the land, providing low-cost labor of “unlimited supply” for economic development and industrialization (“demographic dividend” of the dual sector economy² has made a great contribution to the economic growth in China). China is a country with a vast territory and a huge population, and there are great diversities in resources, economic conditions and cultural habits among regions, so it is of great importance for local governments to innovatively allocate economic elements according to “local conditions” and explore scientific models of regional economic development. Since the reform and opening-up, there have emerged some economic development models with distinctive regional features and characteristics of the times in China, such as the “Pearl River Delta Model” “Sunan Model” and “Wenzhou Model”, which were different in terms of conditions, subjects and capital formation, but one thing in common was that they all promoted local economic modernization, and supported national economic development.

² Dual sector economy means that the economy of developing countries is composed of two different economic sectors, one of which is the traditional sector, and the other the modern sector.



On May 12, 1985, a report on Wenzhou model in Jiefang Ribao (Liberation Daily). *Source* “Wenzhou: Transformation of the City of Sunglasses|40th Anniversary of Reform and Opening up Where It Starts”, https://www.sohu.com/a/235030723_313745

Third, it's necessary to deal with the relationship between the market and the government properly in creating a socialist market economic system. China has been active in promoting institutional innovation in market-oriented reform. After years of exploration, it has formed a socialist market economic system with Chinese characteristics, which organically integrates socialism with the market economy, highlighting the decisive role of the market in resource allocation while giving the full play the role of the government. It was a great invention. Through unswervingly consolidating and developing the public sector of the economy, and encouraging, supporting and guiding the development of the non-public sectors of the economy unswervingly as well, China has cultivated a large number of market players, including these state-owned enterprises entering the market after being deeply reformed, and individual private enterprises in a great amount that are brought up in the market, and foreign-funded enterprises inflowing due to the opening-up policy, and by fully mobilizing the innovative spirit of entrepreneurs, China has brought diversified, comprehensive and coordinated motives for China's economic development.

Fourth, it's greatly helpful to comply with the trend of economic globalization and integrate into the global division of labor system actively. From establishing special economic zones to opening 14 coastal cities to joining the WTO, China has gradually attracted a large number of foreign investors, and introduced advanced technologies and management knowledge, which helped improve its own innovation

ability as China gradually opens its market to the outside world. In a world today, due to the fact that products are more modularized and cooperated production becomes more common, together with the improving transaction efficiency and the declining transaction costs resulted from advancing “space compression” technologies such as information technology and transportation technology, the intra-product specialization based on different processes and sectors of the value chain has developed rapidly, making the global value chains specialization dominant in the international division of labor. Therefore, to develop the economy, a country must be open to the outside world, in order to integrate itself into the global value chain, since economic globalization remains the general trend despite current counter-flows.

2.2 Potential for Future Economic Growth in China

The miracle of China’s rapid economic growth has laid a good material foundation for the realization of common prosperity. However, for a large country with a population of 1.4 billion, it is still necessary to make the “pie” even bigger in the future so as to achieve the goal of common prosperity for all. Therefore, China should tap the potential to secure the economy growth at a medium to high rate, insisting on taking economic development as the central task. But, what is the potential for future economic growth in China?

The potential growth rate is often employed in economic research, to estimate future economic growth. Potential growth rate refers to the economic growth rate of a country determined by the capacity to supply resource elements, production efficiency and development models in a certain period of time, or it can be popularly understood as the economic growth rate that can be achieved upon the full utilization of the resources like labor, capital and technology in a country. Economic researchers have contributed many methods to measure the potential growth rate.³ Here, a study conducted by the authors is used to calculate China’s potential growth rate from 2020 to 2050.⁴ The results are shown in Table 2.1.

It can be seen from Table 2.1 that, as industrialization was basically realized in China by 2020, in general, China will have a declining potential growth rate in the long run. During the period of the 14th Five-Year Plan, the potential economic growth

³ Although there are still many disputes about the significance, measurement and accuracy of the potential growth rate in the economic circle, under certain conditions, the potential growth rate can imply the trend of a country’s long-term growth and growth potential to a certain extent.

⁴ This calculation is based on a more accurate population prediction model and capital stock estimation. Based on the decomposing of the historical growth with this growth accounting method, China’s potential GDP growth rate from 2020 to 2050 was predicted as shown in the table. The prediction only reflected the long-term growth potential, without considering the short-term impacts from events such as the COVID-19. For details, please refer to *The Changing Global Economic Landscape and China’s Potential Growth Rate and High-quality Development in the Post-epidemic Era*, General Group of China Economic Report (2020), Institute of Economics, Chinese Academy of Social Sciences, *Economic Research Journal*, No. 8, 2020.

Table 2.1 Forecast of potential for China’s economic growth from 2020 to 2050

Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Potential growth rate (%)	5.93	5.75	5.55	5.37	5.26	5.19	5.09	5.04	4.93	4.82	4.73
Year	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	
Potential growth rate (%)	4.66	4.53	4.46	4.41	4.33	4.24	4.06	3.89	3.84	3.76	
Year	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	
Potential growth rate (%)	3.70	3.66	3.56	3.54	3.46	3.44	3.39	3.34	3.29	3.28	

Source *The Changing Global Economic Landscape and China’s Potential Growth Rate and High-quality Development in the Post-epidemic Era*, General Group of China Economic Report (2020), Institute of Economics, Chinese Academy of Social Sciences, *Economic Research Journal*, No. 8, 2020

rate in China will come to about 4.3% in 2035 and about 3.3% in 2050, indicating a regular decline, similar as seen in an average country in the process of modernization (especially in late industrialization and post-industrialization periods). However, it is also evident that the growth rate will decline much slowly. In the last ten years (2010–2019), the economic growth rate in China dropped from 10.6 to 6.1%, down 4.5 percentage points. Different from the rapid decline of the economic growth rate in the last decade, the declining pace of potential economic growth rate will gear down much after 2020. By the end of the next decade, that is, the year 2029 (the end of the 15th Five-year Plan), the potential economic growth rate will further drop to 4.8%, only about 1.3 percentage points lower than that in 2019. Even in terms of relative decline, this is far lower than that in last decade. Similarly, by 2035 and 2050, the decline of the potential economic growth rate will be relatively slow and small, meaning China still has great potential for future economic growth in China. Given that appropriate policies in all aspects are carried out, China will be able to maintain a medium economic growth rate for quite a long time, which is of great significance for China to achieve the second centennial goal. According to the above prediction, a series of achievements of landmark significance will be made as China continues to develop its economy in the future.

First, China is expected to become a high-income country after leaping over the “middle income trap” in 2023. As long as China can achieve the potential growth rate as predicted above, China will realize a per capita GDP of USD 13,062 by 2023, thus topping the high-income standard of USD 12,535 by the World Bank, and formally being listed among high-income countries after crossing the “middle-income trap”. In fact, despite the impact of COVID-19 in 2020 and 2021, China managed to record an average growth rate of 5.1%, only 0.8 percentage points lower than the predicated potential growth rate. In 2021, China achieved a per capita GDP of USD 12,500, very close to the high-income standards. Even if the standards are to be lifted up to some extent, China will become a high-income country in 2023, or at the latest in 2025, the last year of the 14th Five-Year Plan period.

As a concept formally put forward by the World Bank in its research report entitled *An East Asian Renaissance*, “middle-income trap” refers to the phenomenon that when stuck by various obstacles in the process of economic development, some developing countries or regions may be trapped in long-term economic stagnation and fail to meet high-income standards for losing development momentum when further boosting residents’ income. In more than 50 years since the end of World War II, only 13 of 101 middle-income economies in the world successfully met high-income standards (five of them are in Asia, including Japan, South Korea, Singapore, Taiwan, China and Hong Kong, China). So, only few economies can overcome this extremely difficult challenge successfully and become a high-income economy, while most other economies will fail in the leap over. After temporarily being labeled as a high-income country or region, some economies may even retrogress to below the high-income line, namely, into the “middle-income trap”. For China, a large developing country with a population of 1.4 billion, it will undoubtedly create a great economic miracle if it can leap over the “middle-income trap” and become a high-income country.

Second, it is expected that by 2035 the economic aggregate and per capita GDP of China will double that of 2020, comparable to that of a moderately developed country.

By 2035, China’s per capita GDP is expected to reach RMB 154,100, an increase of 106% compared with that of 2020. If taking into account the inhibitory effect of COVID-19 on economic growth in 2020, the increase could have been even more prominent. Based on the steady appreciation of the RMB in recent years, China’s per capita GDP will reach that of a moderately developed country in 2035. The economic aggregate of China will reach ca USD 30 trillion, making China the largest economy in the world. That is to say, by 2035, China will become the largest developed country in terms of total economic output, which is exactly the vision of *Outline of the 14th Five-Year Plan (2021–2025) for National Economic and Social Development and Vision 2035 of the People’s Republic of China*, namely, doubling the economic aggregate or per capita income, bringing per capita GDP to the level of a medium-developed country by 2035. Surely, China may fail to realize these long-term goals in 2035 as scheduled, if there will be “black swan events” that shock the economic development in China, such as COVID-19 and an international economic crisis. Therefore, it’s highly possible to realize the goal of doubling the economic aggregate, but the future is uncertain, too. Most importantly, China boasts great potential for future economic growth, but it still needs to secure a good environment for long-term and stable economic development.

Third, it is estimated that by 2050 China’s per capita GDP will be 3.75 times that of 2020, with the economic aggregate reaching ca USD 55 trillion. Based on the potential growth rate predicted above, after the basic realization of socialist modernization in 2035, China will lead in the economic aggregate in the world for a long time. Calculated on the prices in 2019, by 2050, China will record a GDP of USD 55 trillion, while per capita GDP will rise to near USD 42,000, 3.75 times that of 2020. By then, China will become a great modern socialist country that is strong, prosperous, democratic, culturally advanced, harmonious and beautiful, with

greatly liberated and developed social productive forces, comprehensively improved material, political, spiritual, social and ecological civilization. Meanwhile, China will have fully completed economic modernization in all respects and the construction of a modern economic system, while basically realizing common prosperity for all, based on highly developed productivity.

As indicated by the above forecast of China’s potential growth rate, there is great potential for future economic development in China, which would strengthen the confidence in realizing common prosperity for all in China. However, after entering the new era of development, China has encountered a series of new challenges due to the profound changes in the international environment, making the future significantly more unstable and uncertain. In addition, China faces the problem of unbalanced and inadequate development, as well as a tough challenge in boosting the reform in key areas and key links. From “potential” to “reality”, there are a lot of problems and challenges for China to make a bigger and better economic “pie”. However, where there is great potential for economic growth in China, there will be hope, and stronger confidence for all Chinese in pursuing common prosperity for all.

2.3 Making the “Pie” Better: High-Quality Economic Development

The modernization in China has entered a new era, and to realize common prosperity needs high-quality economic development, meaning China demands not only a big “pie” through economic growth, but also a better “pie” through high-quality economic development. That is to say, in the new development era, China should pursue both economic development in both high quantity but also in high quality, namely more efficient, fair, inclusive, sustainable and safe development, since such economic development itself equals progress toward common prosperity.

How to understand high-quality economic development? For late developing countries, the most critical task is to maintain long-term sustainable economic growth, in order to realize economic modernization comparable to that of global leading economies. Long-term economic growth has become an important topic of development economics and a basic requirement for economic modernization. Economic growth means not only continuously expanding the quantity of economic activities, but also the qualitative increase of economic activities. The quantitative expansion of economic growth can be measured by GDP, while the qualitative increase of economic growth needs to be specifically defined based on values and ideas. Many mainstream economic growth theories pay more attention to the quantity of economic growth, and focus on economic growth and factors influencing economic growth, but more or less ignore the values or ideas supporting economic growth.

How to understand the high-quality economic growth in China? Since the reform and opening-up, China has maintained rapid economic growth for many years,

creating a world-renowned miracle. After China entered the new era, the main contradiction in China has shifted into the imbalance and inadequateness of economic development. In such a new development era, President Xi Jinping proposed that China should no longer define the achievements in economy merely upon the growth rate of GDP, and he also put forward a new philosophy of innovative, coordinated, green, open and shared development, to promote the rapid economic growth in China into high-quality and healthy economic development through focusing on quality and efficiency. That is, high-quality economic development is just the economic growth satisfying the people’s growing needs for a better life, and the economic growth that reflects the new development philosophy. In the new development era, the quality of China’s economic growth should be defined and measured by whether it conforms to the new development philosophy.

Specifically, high-quality economic development should be economic growth mainly relying on innovation as the primary driving factor, economic growth, resulted from internally coordinated development of different regions, various industries and diversified social sectors, green growth that boosts the harmony between man and nature, economic growth based on inevitable all-round opening and combination of international cooperation with that of inland, and economic growth that share the fruits by all the people. The main indicators for social and economic development during the 14th Five-Year Plan period have been specified in the 14th Five-Year Plan, which fully reflects the requirements for high-quality economic development, and can be considered as a specific indicator system to measure high-quality economic development. In addition to GDP growth, the system also includes other 18 indicators, namely, workforce productivity growth, urbanization rate, R&D spending growth, number of high-value invention patents per 10,000 population, the added value of core industries in the digital economy to GDP, growth of per capita disposable income, surveyed urban unemployment rate, years of education received by working-age population on average, number of certificated (assistant) doctors per 1000 population, basic old-age insurance coverage rate, number of nursery school places for infants under three per 1000 population, average life expectancy, energy consumption and carbon dioxide emissions per unit of GDP decrease, percentage of days with good air quality in cities at prefecture level and above, percentage of surface water reaching Grade III or above, forest coverage rate, overall grain production capacity, and overall energy production capacity (see Table 2.2 for details).⁵

To secure high-quality economic development, China is expected to pay more attention to following aspects.

First, China will promote the synchronous development of new industrialization, informatization, urbanization and agricultural modernization, and accelerate the construction of a modern economic system. In 2020, China basically, if not fully, realized industrialization. To further industrialization, it has to deal with problems like unbalanced and inadequate development, and to-be-improved industrial modernization, which are of great significance in deepening the process of industrialization

⁵ *Outline of the 14th Five-Year Plan (2021–2025) for National Economic and Social Development and Vision 2035 of the People’s Republic of China*, People’s Publishing House, 2021, pp. 11–12.

Table 2.2 Main indicators of economic and social development during the 14th Five-Year Plan period

Category	Indicator	2020	2025	Annual/accumulative	Attribute
Economic development	1. GDP growth rate (%)	2.3	–	To keep within an appropriate range and set annual targets in light of annual circumstance	Anticipatory
	2. Workforce productivity growth (%)	2.5	–	Higher than GDP growth	Anticipatory
	3. Urbanization rate (%)	60.6*	65	–	Anticipatory
Innovative drive	4. R&D spending growth (%)	–	–	> 7/expected to be more than the total of 2016–2020 period	Anticipatory
	5. Number of high-value invention patents per 10,000 population	6.3	12	–	Anticipatory
	6. Added value of core industries in digital economy to GDP (%)	7.8	10	–	Anticipatory
Wellbeing	7. Growth of per capita disposable income (%)	2.1	–	Being basically in line with GDP growth	Anticipatory
	8. Surveyed urban unemployment rate (%)	5.2	–	< 5.5	Anticipatory
	9. Years of education received by working-age population on average	10.8	11.3	–	Obligatory
Wellbeing	10. Number of certificated (assistant) doctors per 1,000 population	2.9	3.2	–	Anticipatory
	11. Basic old-age insurance coverage rate (%)	91	95	–	Anticipatory
	12. Number of nursery school places for infants under three per 1000 population	1.8	4.5	–	Anticipatory
	13. Life expectancy (years)	77.3*	–	[1]	Anticipatory
Ecology	14. Energy consumption per unit of GDP decrease (%)	–	–	[13.5]	Obligatory

(continued)

Table 2.2 (continued)

Category	Indicator	2020	2025	Annual/accumulative	Attribute
	15. Carbon dioxide emissions per unit of GDP decrease (%)	–	–	[18]	Obligatory
	16. Percentage of days with good air quality in cities at prefecture level and above (%)	87	87.5	–	Obligatory
	17. Percentage of surface water reaching Grade III or above (%)	83.4	85	–	Obligatory
	18. Forest coverage rate (%)	23.2*	24.1	–	Obligatory
Security	19. Overall grain production capacity (hundred million tons)	–	> 6.5	–	Obligatory
	20. Overall energy production capacity (hundred million tons of standard coal)	–	> 46	–	Obligatory

Source Outline of the 14th Five-Year Plan (2021–2025) for National Economic and Social Development and Vision 2035 of the People’s Republic of China, People’s Publishing House, 2021, pp. 11–12

in the new development era. Besides, China is facing the task to promote high-quality industrialization of realizing new industrialization, informatization, urbanization and agricultural modernization at the same time, which in turn requires accelerating the construction of an industrial system that can coordinate and lead innovation, a unified, open, competitive and orderly market system, an efficient and fair income distribution system, a system of coordinated urban-rural and regional development to help local regions develop their strengths and to achieve benign regional interaction, a resource-saving and environment-friendly green development system, and a diverse, balanced, secure and efficient system for opening-up on all fronts.

To this end, on one hand, China should adhere to the core position of innovation in China’s overall modernization drive, and always consider science and technology self-reliance and self-strengthening as strategic support for national development, while implementing the strategy for invigorating China through science and education, the strategy on developing a quality workforce, and the innovation-driven development strategy, to improve the national innovation system, and accelerate the construction of great power in science and technology and to deal with cutting-edge science and technology issues, major economic challenges, critical national demands and people’s needs for wellbeing. On the other, with the focus on the real economy, China will make all the efforts in building China’s strengths in manufacturing, quality, cyberspace and digital, through upgrading the industrial base and modernizing the

industrial chain, and improving the quality, efficiency and core competitiveness of the economy.

Second, China should adhere to the strategy to boost domestic demand and establish a new development pattern, namely a “dual circulation” development paradigm, in which domestic and overseas markets reinforce each other, with the domestic market as the mainstay. An unimpeded economic cycle is vital to the new development pattern which essentially reflects a high level of self-reliance. The new development pattern is a major strategic task concerning to China’s overall development, a major historical mission in the new development era, and an important measure to carry out the new development philosophy. On one hand, China should adhere to the strategic basis of boosting domestic demand, accelerating the cultivation of a complete domestic demand system, and making the construction of a super large-scale domestic market a sustainable historical process. On the other, China should organically combine the strategy of expanding domestic demand with the deepening supply-side structural reform, and generate new demand with innovation-driven development and high-quality supply, to remove impediments to the rational flow and promote the domestic and international “dual circulation”.

On expanding domestic demand, China should intensify the fundamental role of consumption in economic development, comply with the trend of consumption upgrading, boost traditional consumption, cultivate new consumption, and appropriately increase public consumption, while optimizing the investment structure, maintaining a reasonable growth rate of investment, and give play to the key role of investment in optimizing the supply structure. Meanwhile, China should speed up for the improvement of weaknesses in infrastructure and other areas, promote corporate equipment upgrading and technological transformation, expand investment in strategic emerging industries, and carry forward major projects like new infrastructure and new urbanization. As to improve the economic cycle, China should rely on a robust domestic market, remove impediments to all links of production, allocation, distribution, and consumption, eliminate industrial monopoly and local protection policies, promote the balanced development of finance and real estate with the real economy, and facilitate favorable circulation of the national economy, while giving priority to domestic circulation, and work to build a strong domestic market and turn China into a trader of quality, leverage the flows of the domestic economy to attract global production factors and resources, thereby making full use of both domestic and international markets and resources.

Third, China should comprehensively deepen reform and further opening-up to the outside world, to develop a more sophisticated socialist market economy and new systems for a higher-standard open economy.



On June 25, 2021, the first train of CR (China Rejuvenation), G5 from Beijing South Station to Shanghai Hongqiao Station was put into operation on the Beijing-Shanghai express railway. While changing people’s travel mode, the express railway has become increasingly prominent in contributing to the economy and stimulating domestic demand. Taking the Beijing-Shanghai express railway as an example, with a total investment of RMB 220.94 billion, the Beijing-Shanghai express railway has created many employment opportunities by offering jobs to more than 114,000 people. *Source* xinhuanet, “CR Smart EMU Train Launched on Beijing-Shanghai High Speed Railway”, http://m.xinhuanet.com/tj/2021-06/25/c_1127598902.htm

China should uphold and improve the basic socialist economic system, give full play to the decisive role of the market in resources allocation, give better play to the role of the government, and to ensure better alignment between an efficient market and a well-functioning government. In the new development era, China should remove deep-rooted institutional and system obstacles, further improve the systematization, synergy and integrity of reform, boost wider and deeper market-oriented reform, make significant progresses in building a modern property right system and market-based allocation system of production factors, effectively stimulate the vitality of various market players, unswervingly consolidate and develop the public sector of the economy, encourage and support the non-public sectors of the economy to develop side by side, establish a basic institutional arrangement enabling coordinated and supplementary primary distribution, redistribution and tertiary distribution, basically form a legal environment that is conducive to innovation and productivity and prevents the wild growth of capital, develop high-standard market systems for fair competition, and improve the macroeconomic governance system and modern financial system, to form a more sophisticated modern socialist market economic system and new systems for a higher-standard open economy.

Fourth, China will stimulate the overall transformation of green production and consumption for the stable and efficient development of a green economy. Specifically, China will perfect the market incentive mechanism for the green economy, support the establishment of a policy framework of “regulations—standards—incentives”; build a green and low-carbon finance and investment environment, actively promote ESG investment; encourage the innovation and application of energy-saving technologies, accelerate the structural substitution of green energy, and focus on the breakthrough in and wide application of advanced technologies including photovoltaic power generation, wind power generation, biomass energy, inland nuclear power, fuel cells, energy storage, smart grid, and new energy-related materials, to advance the construction of a modern green low-carbon energy system centering on new energy. Besides, China should introduce the concept of carbon neutrality in urban and rural planning and design, control fossil energy consumption and carbon emissions, establish a national market for trading energy use rights and carbon emission rights, formulate and improve laws and regulations for green production and consumption; perfect and implement relevant laws and regulations according to actual regional needs for development; regulate the supervisory departments and agencies of green production, draw up a national action plan for green consumption, comprehensively, deeply and concretely advertise green consumption and lifestyle; integrate the ideas of green supply chain in the building the new development pattern to form a green “dual circulation”; build infrastructure and capacity to enable green production and consumption, strengthen the capacity-building and education of governments, social organizations, enterprises and the public on green production and consumption; encourage the normalization of green and low-carbon work and life styles, and jointly create a green and harmonious society.



The site of the launching ceremony of the joint action on carbon peak and carbon neutralization by Sanjiangkou Yangtze River Ecological Park in Yibin City, Sichuan Province & Chengdu-Chongqing Economic Circle on December 14, 2021. Through this joint action, Sichuan and Chongqing will take “creating mechanisms, establishing platforms, and promoting projects” as the starting point, work together in emission reduction, pollution control, and green accumulation, so as to promote the green development of Chengdu Chongqing Economic Circle. *Source* Yang Jun, Xia Yuan, “Joint Efforts in Sichuan and Chongqing for Carbon Reduction to Accelerate the Construction of the “Green Economic Circle”, https://www.cqrb.cn/content/2021-12/15/content_355212.htm#

Fifth, China should promote the integrated and coordinated urban-rural, regional and industrial development, to realize the strategic synergy of new industrialization, people-centered new urbanization and rural revitalization. Integrated and coordinated urban-rural, regional and industrial development is a strategic requirement for both coordinated regional development strategy and coordinated urban-rural development strategy, for the integrated development strategy of new industrialization, urbanization, informatization and agricultural modernization, for high-quality development strategy guided by the new development philosophy, and for the new people-centered urbanization strategy and rural revitalization strategy, as well as a requirement for solid progress to common prosperity. Meanwhile, information, digital and green technologies provide strong technical support for the integrated development. Taking the construction of new infrastructure for new industrialization and new urbanization as effective means, and through information, digital and green technologies, China should break the institutional barriers for integrated development between industries, regions and between urban and rural areas (such as integrating urban and rural social security), so as to promote the integrated development of urban and rural areas, regions and industries, which inevitably requires enhanced strategic synergy of new industrialization, new people-centered urbanization and rural revitalization. The three major strategies of new industrialization, new people-centered urbanization and rural revitalization are key strategic support for China to achieve modernization and build a modern power. Under the current trend of digital, green and integrated development, it is necessary to effectively promote the synergy of these three strategies, to accelerate the modernization process in China.

Chapter 3

How to Allocate the “Pie” Properly



Since the reform and opening-up, China has made remarkable achievements in economic transformation and development, as the ranking of its economic aggregate has risen to the second in the world, and per capita income has significantly increased, too. At the same time, the income distribution pattern in China has also undergone profound changes, with a widening, fluctuating and then narrowing the income gap. As estimated by the World Bank, the Gini coefficient of Chinese residents was only 0.29 in 1981, and it further decreased to 0.2769 in 1984. However, the highly equal distribution pattern reflected the low efficiency of equalitarianism. After the inefficient equalitarianism was abandoned and the incentive mechanism was shaped, the efficiency of economic operation got improved dramatically, but the income gap gradually widened. According to the estimation by NBS, after it peaked at 0.491 in 2008, the Gini coefficient of Chinese residents has been downward fluctuating since 2009, and it dropped to 0.468 in 2020.

Multiple factors contribute to the widening of income gap. It is partly because of the abandon of inefficient equalitarianism of the planned economy, and because of factors deep-rooted in the system and mechanism. According to the analysis by Zhao Renwei and Li Shi (1997), the reasons causing the income gap to widen should be studied at least from three aspects, namely, of economic growth or development, economic reforms or institutional changes, and economic policies and their variations. In addition, the economic growth is not balanced across all regions. Some regions, some industries and some people may involve in economic growth deeper, so they enjoy more achievements of economic growth. In terms of income structure, various components, such as wage income, operational income and property income, will change unevenly with the developing economy and economic reform, while different components may increase alternately due to specific factors.

3.1 Abandoning Egalitarianism of Low Efficiency

In the nearly three decades from the founding of the PRC to the implementation of reform and opening-up, China made arduous explorations in socialist construction. From establishing the socialist system, to developing the economy under the socialist system, then to the germination of communism in the people’s communes, it can be said that China literally experienced the attempts put forward by Marx from establishing socialism to entering the communist development stage.

After completing the socialist transformation of private ownership of the means of production, agriculture and handicraft industry were transformed from individual into socialist collective ownership, and the capitalist ownership was transformed into socialist ownership by the whole people, forming a planned economic system with public ownership and, which guarantees the implementation of the socialist industrialization strategy and build a favorable environment for distribution according to work. The system of distribution according to work was gradually developed after the founding of the PRC. The wage system based on the positions, the piece-rate system, and the reform of the corporate reward system were all concrete manifestations of the principle of distribution according to work.

However, influenced by the “leftism”, although the exploration for distribution system reform upheld the principle of distribution according to work, there were voices overemphasized the distribution according to work was a transitional and temporary measure, and claimed that such distribution would lead to a disparity between the rich and the poor, even labeling it the “restoration of capitalism”. Such a view of distribution, which gradually weakened the role of distribution according to work in the practice of income distribution, got most popular during 1966–1976, so distribution according to work turned into “distribution according to political attitude”, and egalitarianism, in reality.

Equal distribution was in place before the reform and opening-up. A distribution system combining the wage system and free supply system was adopted in the people’s communes in rural areas, while in urban areas, a wage grading system was employed. In terms of the wage system, the wages of employees were stagnated for long with any adjustment or increase, while those for leading cadres were reduced, and the piece-rate system that reflected the principle of distribution according to work was abolished. To some extent, the free supply system can be regarded as an attempt to “distribution according to demand”, but the economic and social productivity at that time was extremely low, meaning the two basic prerequisites for distribution according to demand could not be met. In other words, there was no great abundance of materials nor all-round developed people. Therefore, the free supply system only led to a “tragedy of the commons” and great waste: the workers lost enthusiasm for production, the shortage of food and clothing could not be completely solved, and the incidence of poverty was high.

Equal distribution grew from the combination of distribution according to demand and the traditional Chinese thought of evening the rich and the poor. However, in a period when the material base was relatively weak, or when the “pie” was

not big enough, equalitarianism was undoubtedly impracticable. Egalitarianism was unable to stimulate the enthusiasm of workers, so it was impracticable and inefficient. Seeking equity without efficiency, or equalizing the distribution without making a big enough “pie”, such a distribution system would never lead to common prosperity, but to common poverty.

As early in the mid-1970s, Deng Xiaoping proposed to adhere to the principle of distribution according to work, of which the principle of material incentives should be given special attention. He said: “We are not used to these so-called material incentives. But should not there be differences in the wages paid to people who are making different contributions? Even doing the same job, some are more skilled than others. Should not they be promoted or get a higher wage?... If everyone receives a wage of RMB 40 or 50, regardless of one’s contribution, skill, ability or labor intensity, it seems equal, but in fact, it does not conform to the principle of distribution according to work. How can this motivate people?”¹ Deng’s view highlighted the relationship between ability, contribution and distribution in a distribution system, and emphasized the material incentive principle of distribution according to work.

After the reform and opening-up policy was carried out, China formulated a basic line that makes economic development as the central task, which actually started with the discussion on the distribution according to work. Four theoretical seminars on distribution according to work were held by the academic circles between 1977 and 1978, which corrected some wrong views on distribution according to work during 1966–1976, and provided a basis for re-establishing the principle of distribution according to work. Although these discussions didn’t go off the shadow of the period, as the participants still believed it was necessary to put proletariat political and ideological education above all, it reconfirmed the material-incentive role of distribution according to work in motivating workers, as “distribution according to work can promote the development of social productivity and the creation of new labor productivity”, so there should be both “rewards and punishments, clearly defined” for workers and the personnel of management. In 1978, the Political Research Office of the State Council drafted *Implementation of the Socialist Principle of Distribution according to Work*, which Deng Xiaoping believed it was “good, for it clearly defined the distribution according to work is socialist rather than capitalist”. Meanwhile, Deng also emphasized that the “distribution according to work means distribution according to the quantity and quality of labor. According to this principle, the wage of an employee should be decided upon the quality of his labor, his technical level and his contribution”, while the political attitude should be “also taken into account”. However, “if we work out the distribution result mainly by focusing on politics instead of labor, it will not be distributed according to work, but according to political position”, so, “in short, the distribution can only be made according to work, not to political factors, nor to qualifications”.²

Innovation in the distribution system at that time was the “theory of pioneer prosperous” which allows some people and some regions to get prosperous first. If

¹ *Chronicles of Deng Xiaoping’s Thoughts (1975–1997)*, Central Party Literature Press, 2021, p. 31.

² *Chronicles of Deng Xiaoping’s Thoughts (1975–1997)*, Central Party Literature Press, 2021, p. 116.

in place are the material incentive principle of distribution according to work and the distribution according to the quality and quantity of labor, an income gap will be inevitable and there will be some people get prosperous faster than others. For this issue, in his speech *Emancipating the Mind, Seeking Truth from Facts, Uniting as One and Looking to the Future*, Deng Xiaoping put forward that “in terms of economic policy, I believe that some regions, some enterprises, and some workers and farmers should be allowed to earn more and live better because of their hard work”. He also believed that these regions and people that get prosperous first could guide and help other regions and people to catch up, and “in this way, the entire national economy will continue to develop like waves pushing forward one another, and the people of all ethnic groups across the country will become prosperous relatively faster”.



In 1984, the floats carrying Chinese characters of “联产承包好” (the household contract responsibility system deserves praising) in the parade of the celebration for the 35th anniversary of the National Day. Source “Great Changes: On the Celebration of the 40th Anniversary of Reform and Opening-up”, <https://www.sohu.com/picture/281749980>

Upon the reform and opening-up, as the “big pot” distribution system of egalitarianism were abolished, the system of distribution according to work was re-established, thus mobilizing the production enthusiasm of the mass. In the late 1970s and early 1980s, the household contract responsibility system got popularized in the rural areas, replacing the original form of the collective economy. This new system greatly improved the rural productivity and significantly the income level of farmers, as it relates the output directly to their labor. Based on the experiences from the rural reform, in the *Decision on Economic System Reform* adopted at the Third Plenary Session of the 12th CPC Central Committee in 1984, it was clarified that China would

carry out economic system reform in cities. In terms of distribution, while insisting on the principle of distribution according to work, first, the new distribution system would allow enterprises to link the wages and bonuses of employees to the enterprise's performance, which broke through the restrictions of the unified wage grading system and associated individual labor with corporate revenues. Second, "within an enterprise, there will be a larger wage gap, to reflect the differences between diligent and lazy employees, between rewarding and punishment, as well as the different contributions from various jobs, such as mental and physical jobs, complex and simple jobs, and intense and light jobs". Third, some regions, some enterprises and some people would be allowed and encouraged to become prosperous pioneers because of hard work. The proposed reform in the distribution system followed the principle of distribution according to work, but broke through the wage grading system in the specific implementation. The wage grading system fixed the wages of workers to their pre-set grades, rather than to the output of their labor, and the incentives for them were promotions in the "grades". The distribution system reform at that time featured a direct link between personal income and the labor, which resulted in enlarged income gap among regions, enterprises and individuals in an enterprise, and gave full play to the incentive role of distribution according to work.

Generally speaking, before the reform and opening-up, equalitarianism prevailed in China, with the income distribution system then in China was more intended to emphasize equity rather than efficiency, resulting in the lack of necessary incentive mechanism, which in turn led to low production efficiency. Therefore, at the beginning of the reform, Chinese policy makers proposed to "encourage some pioneers to get prosperous first", aiming at improving efficiency through a better incentive mechanism and wiping out the equalitarian income distribution system, to finally achieve common prosperity with a "pie" growing bigger.

3.2 Putting the Positive Inequality Within a Reasonable Range

The inequality, or income gap, can play a positive incentive role, but it is still necessary to control the positive inequality by limiting the fair income gap within a reasonable range. With the correction of the low efficient equalitarian distribution model, in the market economic system, the return of production factors became gradually rationalized, and the resulting enlarging income gap can be rationally explained, since it undoubtedly stimulated the efficiency. Still, measures should be taken to control the inequality, though positive, so as to prevent the income gap from being over large.

In the early stage of reform and opening-up, a series of institutional reforms were carried out to stimulate the enthusiasm for production, including the implementation of the household contract responsibility system in rural areas, the reform of enterprises in cities, the government reform of decentralization of power and transfer

of profit to improve the autonomy of enterprises, and the implementation of the opening-up policy in coastal areas. All these measures broke the inefficient equalitarian systems, and enlarged the income gaps, while stimulating the enthusiasm for production and promoting economic growth. With regard to the wider income gap, Deng Xiaoping put forward the “theory of pioneer prosperous”, believing that the pioneering people and regions get prosperous first could help stimulate production enthusiasm, encouraging other regions and individuals to move toward common prosperity, by setting an example. Therefore, it was necessary to keep a reasonable income gap. Against the enlarging income gap and the emerging polarization, the governments can take measures when certain economic results were achieved at the end of the 20th century. Therefore, the widening income gap at the early stage of reform and opening-up was not only the natural result from correcting the equalitarian distribution system, but also the intended results of the government as a stimulus to production enthusiasm, though there emerged unreasonable income gaps caused by speculation and corruption due to the coexistence of planned and market economy.

With the establishment of the socialist market economic system, the market began to play an increasingly important role in allocating resources, and the market economy started to make an impact on the distribution results. Various factors of production receive reasonable remuneration through the market mechanism, that’s how the market economy works and the results of market economic development. In urban areas, it was inevitable to see the changes in the wage distribution system for urban workers and the resulted enlarging wage income gap, reflecting the gradually enhanced effect of the market mechanism on the wage distribution, which made individual’s wage income a more direct incentive and practiced the principle of efficiency first. Of course, it was undeniable that the institutional reform and the market segmentation also contributed to the wider wage income gap.

At the beginning of the reform, the wage system was under highly centralized management, perfectly matching the dominance of the state-owned economy. The wage standards of state-owned and collective enterprises were determined by the government on comprehensive factors including the educational background, length of service, position and technical level of the employees. In addition to the wages, employees of state-owned enterprises also enjoyed housing, healthcare and/ or other allowances. The performance of the enterprise would not affect the wage income of the employees, neither would the labor input and final output of the employees. Under this “big pot” distribution system, employees received an equalized wage, which could not stimulate the enthusiasm for production.

As non-state-owned economy of mixed ownership gradually developed, foreign capital began to inflow into China, and individual and private enterprises gained momentum for development, the pressure on urban employment was alleviated at that time. The employment system and wage model of non-state-owned economy had the characteristics of a market distribution mechanism from the very beginning, since the enterprises made decisions on employment and formulated corresponding wage standards according to the employee’s productivity. Employees with high productivity would be hired with good payment, while those with low productivity would be paid low or even couldn’t get a job.

At the same time, reforms were also carried out within state-owned enterprises, which directly boosted the labor system and wage system of state-owned enterprises to move gradually toward the market-oriented models of the non-state-owned economy. State-owned enterprises began to gain more autonomous power in the employment and to make decisions to adjust the size and structure of the labor force in enterprises, for better efficiency. The wage system of state-owned enterprises was revised, too, as state-owned enterprises had hardening budget constraints, and the model of “enterprises burdened with social responsibilities” was abandoned. Meanwhile, housing, medical care and other welfare allowances had a declining proportion in the employee income structure, making income more directly related to the output, and human capital such as education had also a better return.

The change in wage distribution mechanism was actually the re-confirmation of the relative importance of various factors influencing the wages by the market economic system, resulting in greater income gaps among urban residents. Under the traditional planned economic system, the wage was mainly determined by seniority, meaning the length of service was responsible for most of the wage differences at that time. Comparatively speaking, the existing wage mechanism takes into account more diversified and constantly changing factors. As some related studies indicated, education background has replaced seniority, and become the most important factor in determining employees' wages. Education background is an important part of human capital, and also an important factor contributing to the income gap, mainly reflected in the increasing return on individual education in cities and towns. The return rate of education investment in Chinese cities and towns continues the trend of growth, that is, the annual income of those with higher education is higher than those with a secondary education background. The impact of human capital on wages is gradually increasing, resulting in income differences among workers with different human capital investments. Such an income gap is undoubtedly a type of positive inequality, since it can promote a better allocation of labor resources and the accumulation of human capital.

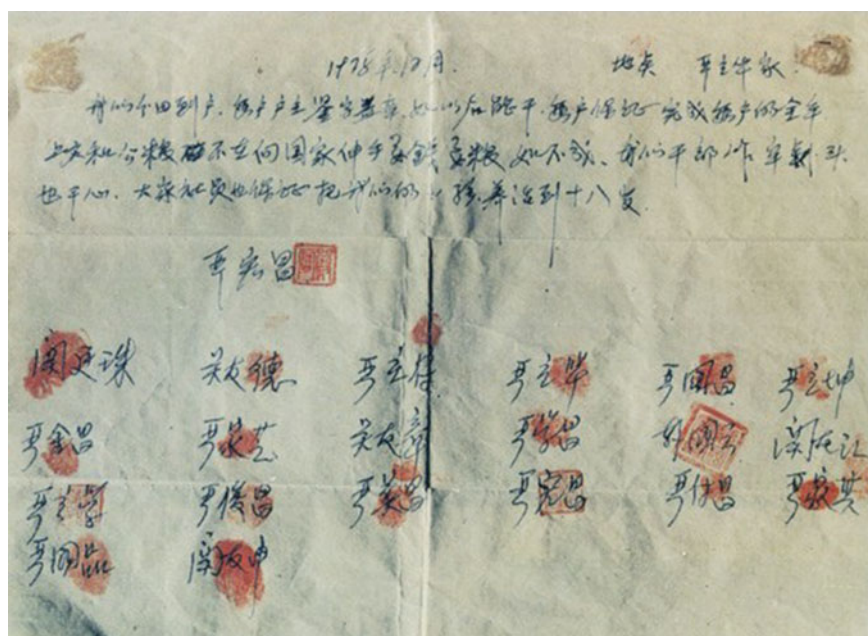


In August 1977, the CPC Central Committee decided to restore the Gaokao (college admission examination) system; In December of the same year, 5.7 million young people participated in the national college entrance examination, and 273,000 people became the first batch of college students in the new period. The picture shows a college entrance examination classroom in Beijing. *Source* “Great Changes: On the Celebration of the 40th Anniversary of Reform and Opening-up”, <https://www.sohu.com/picture/281749980>

Before the reform and opening-up, under the collective farming system of the people’s communes, not only the production teams lacked complete autonomy in agricultural production, but also an individual rural worker, a micro subject, had an extremely limited decision-making space. The collective labor that rural workers engaged in was often prescribed by the production teams, so workers lacked enthusiasm on the spot, because they couldn’t get any reward commensurate with their own output in collective labor, nor punishment for their inactivity. On the contrary, on these small household plots, villagers’ enthusiasm for production was greatly brought into play. Many villagers often idled away in collective labor, but showed great diligence in managing household plots. The shocking contrast in efficiency between collective farming and individual labor was obviously contrary to the classical belief and policy guidance at that time, and led to heated debates among the decision-makers on “fixing farm output quotas for each household”. Although the policy of “fixing farm output quotas for each household” was restrained and inhibited before the reform and opening-up, the farmers never gave up their will, nor would they stop the practice of “working for their own”.

As the reform and opening-up policy was carried out, the model of fixing farm output quotas for each household was officially recognized, and the household contract responsibility system with remuneration linked to output was implemented nationwide, which allows farmers to have their own land, farm tools and other means of production, and to manage their own labor freely. Although the household agricultural production still bears the characteristics of teamwork, the altruism within

a family would solve the free-riding problem and rule out the egalitarianism of low efficiency. The return of collective farming to household farming reconfirmed the principle of distribution according to work in agricultural production, which moderately widened the income gap, but more importantly, it stimulates a substantial improvement in agricultural production efficiency.



On a cold night in December 1978, 18 farmers of the Xiaogang production team in Fengyang County, Anhui Province secretly signed to contract the collective farmland to households, which opened the prelude to China's rural reform. *Source* "Six Articles from the People's Daily as the Illustrations of the 70 Years' Efforts of the People's Republic of China", <http://www.workercn.cn/32845/201908/25/190825111448125.shtml>

In addition to farming at home, more and more villagers went to local non-agricultural sectors or cities far away from hometown. The non-agricultural economy not only diversified farmers' incomes, but also widened the income gap among rural residents, causing inequality apparently. Undoubtedly, such inequality was positive, for it played an important role in making full use of rural labor resources, reducing rural surplus labor, increasing farmers' income, and improving the efficiency of labor resource allocation and economic operation.

Besides, education played an increasingly significant role in helping rural residents receive local non-agricultural incomes and/or wages as migrant workers. Many studies concluded that education could improve the probability of opportunities for rural residents to earn a life outside hometown. For rural residents work out of their hometown, education could also increase their incomes from non-agricultural

sectors. Similarly, education played a significant role in promoting the incomes of rural residents from local non-agricultural economy. As mentioned earlier, it was positive for the widening of the income gap due to higher return rate of education investment, too, though the rate would gradually decline with the popularization of education.



On February 7, 2022, at Luyuan Square, Lushi County, Sanmenxia City, Henan Province, the first batch of more than 400 migrant workers to Jiangsu and Zhejiang were ready to leave. In recent years, Lushi County has paid great attention to the training of labor skills through the cooperation between government and enterprises. It has built a model of training integrating urban and rural areas through the joint efforts of various departments, educational institutions and enterprises, which greatly improved the skills of migrant workers and helped the local people to increase their income. *Source* “‘News Photos’: Henan Lushi County: More than 400 Migrant Workers to Hit the Road”, <https://baijiahao.baidu.com/s?id=1724357601933985028&wfr=spider&for=pc>

3.3 Eliminating Negative Inequality

Income gaps include both fair (positive inequality) and unfair (negative inequality) gaps. If social and economic subjects gain the remuneration matching their contributions legally, the resulting income gaps will be of positive inequality, while negative inequality will occur when there are income gaps because of institutional barriers such as monopoly and labor market discrimination.

Negative inequality causes inconsistency between labor input and output reward, while positive inequality can be an incentive to economic subjects and stimulate

them to legitimate economic benefits through honest labor and legal operation. Positive inequality conforms to the efficiency criterion. As long as it is limited within a reasonable range, the positive inequality will help stimulate the enthusiasm for production. The negative inequality breaks market orders, competition rules and the legal system, and harms the interests of economic subjects normally participating in market competition, resulting in both inefficiency and unfairness. In terms of subjective feelings, people agree with the positive inequality, and they are particularly disgusted with the negative inequality.

The unequal wage distribution due to the labor market segmentation is undoubtedly unfair inequality that needs to be corrected with specific policies. The labor market segmentation can be characterized by labor market access barriers, status discrimination, same work with different pay, etc. A perfectly competitive labor market should secure equal income for employees with the same human capital, making no differences for factors like ownership, industries or regions. The income gap between urban and rural areas and between regions partly resulted from labor market segmentation, too. At present, there is no integrated labor market yet, and labor market segmentation is still a problem, with some obstacles hindering the labor flow across sectors of different ownership, industries, regions and household registration. Therefore, it is difficult to alleviate the wage inequality across different sectors of ownership, industries, and regions, and between urban and rural regions through the free flow of labor. Non-productive factors like ownership, industry, region, and household registration have significant impacts on the incomes of employees, which to a large extent reflects the segmentation of the labor market. Promoting the integration of labor markets will help to eliminate the negative inequality and improve the efficiency of labor resource allocation.

Various monopolistic conducts in the process of system transition, including departmental and industrial monopoly, led to wider income gaps while degraded efficiency, causing negative inequality that should be curbed. Restricting unreasonably growing wages in monopoly industries and sectors through effective supervision can also substantially alleviate income inequality. As measures were issued against the unreasonable labor market system and wage model, not only wage inequality would be altered, but also the efficiency could be improved. The uneven distribution by corruption often seriously disturbs the order of income distribution and arouses people's dissatisfaction with the income gap.

In recent years, China has made great efforts to eliminate negative inequality, and carried out many measures including promoting the development of labor markets in China, gradually improving the recruitment and employment mechanism, preventing the impacts on the allocation of the labor force from non-market factors such as family background, administrative power, relationship or black box operation, so as to secure employees can get due returns with their skills and efforts by eradicating the root causes for unfair income gaps. In addition, China is gradually removing employment qualifications and social welfare attached to household registration through the reform of the registered residence system, to smoothen the flow of labor across industries, sectors of different ownerships and regions. China will continue to reform the wage system, formulate wage grading standards, and try to eliminate the phenomenon

of the same work with different pay, so as to ensure that wages are consistent with labor productivity.

In terms of anti-monopoly, since the 18th CPC National Congress, China has made several major decisions and arrangements centering on anti-monopoly and anti-unfair competition, to improve the fair competition system, reform the market supervision system, strengthen anti-monopoly supervision, boost the construction of a high standard market system, and promote the establishment of an integrated, open and orderly competitive market system. In response to these outstanding problems such as wild growth and disorderly expansion of some platform enterprises, China has intensified anti-monopoly supervision, investigated and penalized monopoly and unfair competition conducts of relevant platform enterprises in accordance with the laws and regulations, and achieved initial successes against the disorderly expansion of capital, steadily improving market order and fair competition. The achievements in anti-monopoly also provide a strong guarantee to curb negative inequality.

In terms of anti-corruption, since the 18th CPC National Congress, the CPC Central Committee, with Comrade Xi Jinping as the core, and holding the belief that it takes a good blacksmith to make steel, has incorporated the full and strict governance of the CPC into the four-pronged comprehensive strategy. President Xi Jinping, with the spirit of “I will never seek my own good and never fail the people”, the determination of “honoring the commitment to 1.4 billion Chinese by fighting against any corrupted”, and the courage of “taking a heavy dose of medicine to treat a serious disease”, has promoted the great new project of the CPC building, to rally the hearts and minds of the CPC and the people with a fine working style, govern the CPC with strict discipline, and punish corruption with zero tolerance. Since the fight against corruption has won an overwhelming victory and been consolidated in an all-round way, the negative inequality rooted in corruption is losing the soil for survival.

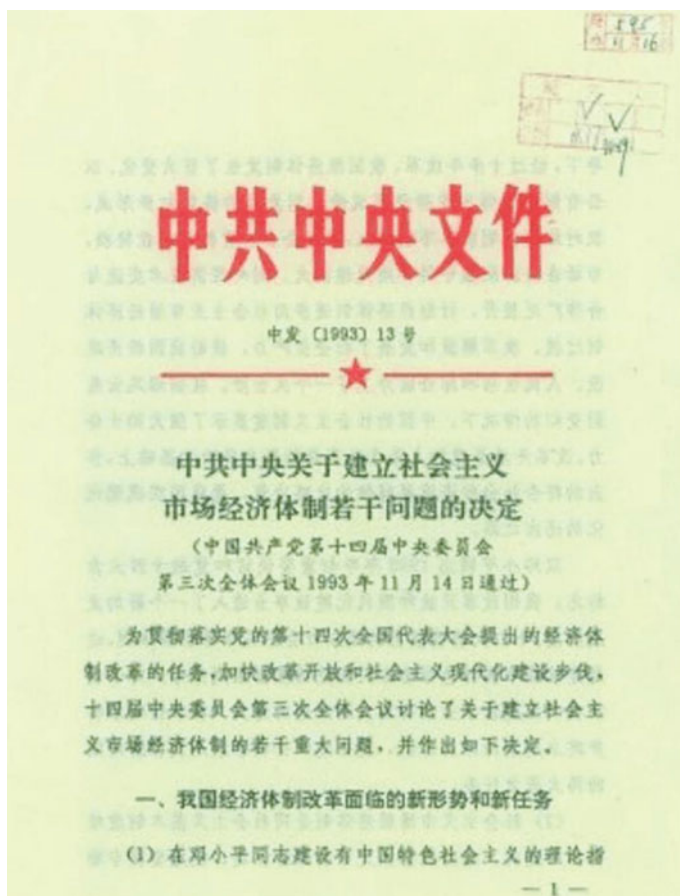
3.4 Handling the Relationship Between Efficiency and Equity Properly

President Xi Jinping stressed that solid progress to common prosperity needs correctly handle of the relationship between efficiency and equity. The relationship between efficiency and equity has always been an important topic of concern in the academic and political circles in many countries, but there is no conclusion by now whether there is a trade-off relationship between efficiency and equity, or whether efficiency and equity can mutually promote each other. Efficiency or fairness? Different countries and regions should make the choice based on specific national conditions in a certain period, by taking into account the economic development, current economic challenges and so on. There is no unified standard for a country or region to choose between efficiency and equity, and the choice is often a contingent decision out of different considerations, and practical factors should

come first, such as the economic development, the intensity of social contradictions and the strength of antagonistic forces.

From the implementation of reform and opening-up to the 16th CPC National Congress, China adhered to the principle of “giving priority to efficiency with due consideration to fairness” in balancing efficiency and equity. Such policy orientation was determined by specific realities in China like historical conditions and basic social contradictions. Under the conditions of low economic efficiency due to long-term egalitarian distribution model, the relatively backward overall social and economic development, and the highly mild conflicts of interests among all social strata, and it had great positive significance in promoting the improvement of social productivity, people’s lives, and comprehensive national strength. In terms of the relationship between efficiency and equity, China has experienced transitions of policies from breaking egalitarianism to “giving priority to efficiency with due concern to fairness” and “striking a proper balance between efficiency and equity in both primary distribution and redistribution, with particular emphasis on equity in redistribution”, and then to “the people-centered philosophy of shared development and common prosperity”.

After setting the goal of establishing a socialist market economy system at the 14th CPC National Congress, the market has been playing an increasingly important role in resource allocation, and it becomes more obvious for the impact on income distribution by the market economy. Various factors of production receive reasonable remuneration through the market mechanism, that’s how the market economy works and the results of market economic development. Therefore, distribution according to work and distribution according to production factors have naturally become the distribution principles in a socialist market economy. During the period from the 14th to the 16th CPC National Congress, the CPC Central Committee continued the objectives and requirements of stimulating production enthusiasm and developing the economy since the reform and opening-up, attached great importance to economic efficiency, put forward the income distribution policy of “giving priority to efficiency with due consideration to fairness”, meaning paying more attention to efficiency than fairness.



Decision of the CPC Central Committee on Issues of Building a Socialist Market Economy adopted at the 3rd Plenary Session of the 14th CPC Central Committee (excerpt)

In the context of a widening income gap, the 16th CPC National Congress made a necessary revision to the principle of giving priority to efficiency with due consideration to fairness, proposing to focus on efficiency in primary distribution and on fairness in redistribution. In fact, to a certain extent, the proposal redefined the relations between equity and efficiency, and placed equal priority on both by attaching primary distribution and redistribution respective duties. The report approved at the 17th CPC National Congress clearly stated that “a proper balance will be struck between efficiency and equity in both primary distribution and redistribution, with particular emphasis on equity in redistribution”, replacing the guiding principle of “giving priority to efficiency with due consideration to fairness”. The changes in the relative status of efficiency and equity reflected the trend of the income gap, and also the corresponding adjustment by the government against the widening income gap.

The report of the 18th CPC National Congress once again emphasized the relations between efficiency and equity that “a proper balance will be struck between

efficiency and equity in both primary distribution and redistribution, with particular emphasis on equity in redistribution”. Since the 18th CPC National Congress, the CPC Central Committee has attached great importance to social equity, developed a national development philosophy of shared development, and reiterated the goal of common prosperity. Through poverty alleviation, cracking down on corruption, and perfecting the tax system and social security system, China managed to slow down the widening of income gaps, and even narrowed the gap slightly, laying a solid foundation for progress to common prosperity.

3.5 Narrowing the Development and Income Gap Between Urban and Rural Areas

President Xi Jinping pointed out that “It’s still a prominent problem that the development remains unbalanced and inadequate in China, with a huge gap between urban and rural regional development and income distribution.”³ To significantly narrow the development gap between urban and rural areas and the gap of living standards among residents constitutes the only way to make solid progress to common prosperity.

The urban-rural income gap was narrowed at the beginning of reform and opening-up, and then began to widen. At the beginning of reform and opening-up, there was a large income gap between urban and rural residents due to the urban-rural dual economic system. In terms of the per capita income ratio between urban and rural residents, as the rural reform was carried out earlier than the urban, the income ratio once declined for a short period from 1978 to 1985. In 1983, the urban-rural income ratio dropped to 1.82. Improved rural labor and land resource allocation efficiency thanks to the household contract responsibility system, together with the adjustment of the price scissors between industrial and agricultural products, the income of rural residents rose rapidly. As the reform in urban areas carried on, urban residents enjoyed a higher income growth rate than in rural regions, and the urban-rural income gap widened quickly. By 1992, the income ratio between urban and rural residents had exceeded that before the reform, and reached the highest in 1994 during that period. Later, the ratio came down a little to 2.47 in 1997, for urban residents suffered an income decrease due to the reform of state-owned enterprises, while rural residents benefited from the rises in agricultural product prices and the increasing incomes of migrant workers. However, the income of urban residents again grew faster than that of rural residents, continuously enlarging the urban-rural income gap. In 2007, the income ratio between urban and rural residents reached a historical high of 3.14. However, in the last few years, a series of policies to increase farmers’ income gradually took effect, and the urban-rural income gap narrowed dramatically. In particular, the integration of urban and rural social security, the poverty alleviation project and the rural revitalization strategy, implemented since the 18th CPC National

³ Xi Jinping, “Making Solid Progress Toward Common Prosperity”, *Qiushi Journal*, No. 20, 2020, pp. 4–8.

Congress, have significantly improved the income and welfare of rural residents, and greatly filled up the income gap between urban and rural residents. The latest statistics from NBS showed that the urban-rural income ratio dropped to 2.50 in 2021.

Besides, as an important part of the income gap, the regional income gap is resulted from several historical and practical reasons, such as natural resources, development opportunities, industrialization tradition and market development in different regions. The variable coefficient for per capita GDP by provincial administrative prefecture indicated that the regional income gap gradually widened since 1992, and the trend continued into the early 21st century. In 2003, the regional income gap turned downward, which on one hand benefited from a series of regional development strategies, such as Large-scale Development of Western China, the Rise of Central China, Revitalization of the Old Industrial Base in Northeast China and so on. These strategies have promoted coordinated regional development and decreased regional development differences. On the other, the mass migration movements also helped narrow the regional per capita income gap. However, it's worthy noting that since 2015 the income gap between regions has extended slightly. In addition, while the gap between eastern and western China gradually narrows, the gap between the North and the South becomes more prominent.



On March 29, 2022, a bird view by drone of the vegetable greenhouse cluster in Nanhua Town, Gaotai County, Zhangye City, Gansu Province. In recent years, with the focus of rural revitalization on characteristic vegetable planting, Nanhua town has embarked on a journey of healthy development of vegetable planting in revitalizing rural industries, and promoting farmers' income and prosperity. *Source* Wang Jianping, “Vegetable Greenhouses at the Foot of Qilian Mountains Help Farmers for Increased Income”, <https://view.inews.qq.com/a/20220331A028NF00>

The income gap between urban and rural residents was extremely low before and at the beginning of the reform, when the income distribution was highly equalized. The Gini coefficient that indicates the Chinese resident income gap was much lower than that of most developing countries in the world at that time. The Gini coefficient of Chinese urban residents' incomes was below 0.2, and that of rural residents' incomes was slightly higher, ranging from 0.21 to 0.24, as most experts estimated. In contrast, in many developing countries, the Gini coefficient was between 0.37 and 0.43 in cities and between 0.34 and 0.40 in rural areas. With the abolition of the egalitarian distribution model, the income gap began to widen, in the late 1980s, and the trend continued till 2008, when the government took a series of measures to give full play to the adjusting role of redistribution, increase investment to ensure and improve people's livelihood, and further reform the income distribution system, in order to curb the rapidly enlarging income gap. The Gini coefficient has turned downward since 2008, dropped to 0.462 by 2015, but rebounded slightly in 2016 to 0.465. The Gini coefficients in 2017, 2018, 2019 and 2020 were 0.467, 0.468, 0.465 and 0.468 respectively. In general, the widening rate of income gap has been put under control.

Chapter 4

People-Centered Common Prosperity



Common prosperity is an essential requirement of socialism, and the development of people is the central goal for economic and social development. In his speech at a ceremony marking the centenary of the Communist Party of China, President Xi Jinping repeatedly stressed the people-centered philosophy of development, and particularly mentioned that “On the journey ahead, we must rely closely on the people to create history. Upholding the Party’s fundamental purpose of wholeheartedly serving the people, we will stand firmly with the people, implement the Party’s mass line, respect the people’s creativity, and practice a people-centered philosophy of development. We will develop whole-process people’s democracy, safeguard social fairness and justice, and resolve the imbalances and inadequacies in development and the most pressing difficulties and problems that are of great concern to the people. In doing so, we will make more notable and substantive progress toward achieving well-rounded human development and common prosperity for all!” The Chinese government has always adhered to the people-centered development philosophy and insisted on the belief that polarization is not socialism. Along with economic development, the widening income distribution gap reflects the differences in labor productivity, but there are also some unreasonable gaps, which are difficult to be eliminated and narrowed only by economic and social development. Just as the Kuznets curve¹ does not necessarily come out as an inverted U shape, it does not necessarily happen to transfer the achievements of economic development to low-income groups with the trickle-down effect. While maintaining a high economic growth rate, the Chinese government has continuously promoted the income increase of residents, especially low-income groups, creating certain necessary conditions for the improvements of income distribution structure and the transfer of economic development achievements to low-income groups, demonstrating the initiative to take responsibility of the Chinese government. China is promoting people-centered common prosperity, and

¹ Kuznets curve is a hypothetical curve used to depict the relationship between economic inequality and per capita income in the process of economic development (the hypothesis is time related).

these measures, including supporting low-income groups, ensuring workers' income and promoting employment, are all important manifestations of people-centered philosophy.

4.1 Elimination of Absolute Poverty

Since the reform and opening-up, China has made great achievements in poverty alleviation. Getting rid of poverty not only attracts great attention from China, but also is a core goal for world development. In July 2015, the United Nations in China released a report stating that "China has seen unprecedented and outstanding achievements in implementing the Millennium Development Goals, including lifting 439 million people out of poverty between 1990 and 2011, reducing the under-five mortality rate by two thirds, cutting the maternal mortality rate by three quarters, and halving the proportion of the population without sustainable access to safe drinking water and basic sanitation". On this basis, the Chinese government has further taken people-centered poverty alleviation measures, implemented targeted poverty alleviation policies, and achieved the elimination of absolute poverty under current poverty standards by 2020.

The poverty alleviation policies pursued by the Chinese government are not single nor linear, but diversified and constantly evolving. Different poverty alleviation policies are interspersed, and have set certain nodes, but they are not a one-size-fits-all reform, manifesting the people-centered philosophy in different ways. At the beginning of reform and opening-up, China was a low-income country with relatively backward economic development. At that time, there was a poverty-stricken population of 250 million in China, and the poverty rate was as high as 30.7%. To help farmers get out of poverty, it was the first choice to carry out economic reform and promote economic development at that time. Most of the poverty-stricken population in China lived in rural areas, and ample food and clothing were of top priority for the rural poor, so China started the reform by alternating the original agricultural production mode, namely implementing the household contract responsibility system, which turned farmers into a relatively independent economic entity, and greatly stimulated their enthusiasm for production. Between 1979 and 1984, China's agricultural productivity increased by 7.1% in average annually, 2.63 times that of the period from 1970 to 1978. With an improved agricultural labor productivity, there was a surplus of the rural labor force. How to promote the employment of surplus rural labor in non-agricultural sectors, further improve farmers' income and get rid of poverty presented a new challenge. During the period of planned economy, the labor flow between urban and rural areas was severely restricted. In response to the demand of the surplus agricultural population for non-agricultural employment, in 1984 the *People's Daily* published the *Notice on Rural Work in 1984*, which eased the

restrictions on the flow of farmers to cities and removed the previous strict limitations on rural labor to work in cities. However, at the same time, the employment system of state-owned enterprises in urban areas did not provide many opportunities for farmers to work in cities. In the context of the policy of “leaving the farmland but not one’s hometown”, non-agricultural sectors in rural areas flourished and prospered for some time, creating non-agricultural employment opportunities for farmers and further increasing the incomes of rural families.

With the reform and opening-up furthering, the development of special economic zones and non-public economy in urban areas, non-agricultural employment opportunities in urban areas proliferated, and a large surplus agricultural population began to flow into cities and towns. In 1994, at the 3rd Plenary Session of the 14th CPC Central Committee it was made clear that China would build a socialist market economy, to enable economic entities of various ownership to participate in market competition, and encourage and guide the transfer of rural surplus labor to non-agricultural sectors. The *Priority Poverty Alleviation Program (1994–2000)*, which was issued in the same year, clearly defined the poverty alleviation policy, launched a large-scale development-driven poverty alleviation, and assisted the rural poor out of poverty by fully tapping the potential of production factors in impoverished areas. The proportion of wage income in the income structure of rural residents gradually rose, from 14.6% in 1990 to 22.32% in 2001.

In response to changes in the demographic structure of the impoverished and in the poverty level as well as economic and social development, China contentiously adjusted poverty alleviation policies, for more targeted poverty elimination. In 2001, the incidence of poverty in rural China dropped to 3.2%, and the problem of food and clothing for the rural impoverished was basically solved. In the same year, the Conference of the CPC Central Committee on Poverty Alleviation and Development adopted *Outline of Development-driven Poverty Alleviation in Rural Areas (2001–2010)*, which clarified the continuous promotion of development-driven poverty alleviation, namely regional poverty alleviation in a wide range in poor counties through market-oriented development centering on economic construction. In 2010, the incidence of rural poverty below the poverty line dropped to as low as 2.8%. While both the size of the poverty-stricken population and the incidence of poverty decreased, the *Outline of Development-driven Poverty Alleviation in Rural Areas (2011–2020)* was issued in 2011, which raised the poverty standards, and on the basis of consolidating the achievements of satisfying the basic demand for necessities like food and clothing, carried out comprehensive poverty alleviation targeting at “two assurances and three guarantees” referring to assurances of adequate food and clothing and guarantees of having access to compulsory education, basic medical services and safe housing. With the continuous development of reform and opening-up, most of the impoverished rural population that had the conditions to get rid of poverty through economic development had been lifted out of poverty, meaning the population still below the poverty line was no longer regionally agglomerated but dispersed in rural areas, and it was no longer effective for the development-driven poverty alleviation policy, and

it required a more targeted way to help the impoverished population out of poverty. Given the changes in the demographic characteristics of the impoverished population, since the 18th CPC National Congress, a “targeted poverty alleviation” policy has been issued, featuring more specific and targeted poverty alleviation focusing on the groups that are difficult to get rid of poverty through development-driven poverty alleviation projects.

President Xi Jinping pointed out that “the key to a moderately prosperous society lies in the well-being of the villagers, and lies in whether all these impoverished villagers can be lifted out of poverty”, which opened the prelude to the battle against poverty, and “the fight against poverty began in full swing” became an important chapter of the 13th Five-Year Plan (2016–2020). At the same time, top leaders of the CPC and governments in provincial administrative prefectures signed the letters of responsibility for poverty alleviation to the CPC Central Committee, which clarified the promised specific duties for governments of different levels. The poverty alleviation methods and funds at that time were diversified and unconventional. From the perspective of the methods for poverty alleviation, the scope has been further expanded on the basis of 2002–2010. In 2015, China’s National Development and Reform Commission launched five key measures for poverty alleviation: some by increasing production, some through relocation, some through ecological compensation, some through education, and some by providing allowances to assist them in meeting their basic needs. Of these, measures concerning relocation, ecological compensation, education and allowances are meant to alleviate poverty through redistribution, reflecting the focus on the distribution system.



Two family photos as milestones on the way out of poverty (Upper: a family photo of Dao Zhenghua's family taken in front of their house in 1988. Lower: a family photo of Dao Zhenghua's family taken in front of their new residence on May 20, 2020). *Source* "Two Family Photos as Milestones on the Way out of Poverty (My Country and My Family, Memory of Poverty Alleviation)", *People's Daily*, Page 7, October 30, 2020

In terms of the scale of poverty alleviation funds, the targeted poverty alleviation also reflected the importance of redistribution. From 2013 to 2020, the accumulated special poverty alleviation funds of governments at all levels reached RMB 1.6 trillion, of which as much as RMB 660 billion came from the central government. At the same time, based on the principle of encouraging those having got prosperous first to help others catch up, China encouraged partner assistance between eastern and central-western regions in China. Between 2015 and 2020, 9 eastern provinces made an investment totaling RMB 100.5 billion in partner regions as financial and social assistance funds for poverty alleviation. Both central government agencies and private enterprises got involved in targeted poverty alleviation, through capital and/or large-scale labor investment, since poverty alleviation needs human resources (labor and management) in great amount. From data collection to documentation to household-based poverty alleviation and to follow-up result-check, all required assigning specific personnel. Besides, in every poverty-stricken village stationed a working team, and every impoverished family was assigned a duty officer. By the end of 2020, a total of 255,000 working teams, more than 3 million first secretaries and cadres had been selected and sent to poverty-stricken regions, to cooperate with nearly 2 million local township cadres and millions of village cadres for poverty alleviation. In 2019, the rural poverty line was set at RMB 3218 (annual income of a person), and the incidence of poverty that year was only 0.6%. In 2021, absolute poverty under the current poverty standard was eliminated in China.

4.2 Solid Welfare System Guaranteeing Basic Livelihood

As an important part of social security, social assistance plays a role in ensuring that impoverished and low-income families can satisfy the basic living needs and get out of poverty. The first social relief law was promulgated in Germany in 1860, which started the history of national social assistance. Social assistance started relatively late in China, and only targeted at the urban poor as the beginning. An urban social assistance was established apart from the rural poverty alleviation system mainly because at the time of its establishment, there was a large income gap between rural and urban areas in China, and the living costs in cities and towns were relatively high, which would cause difficulty or failure for the system to play the role in social assistance if the same system was adopted as the rural poverty alleviation. In other words, the urban social assistance system would not meet the basic living needs of low-income groups in cities and towns, turning out to be useless.

Different from the rural areas, there was almost no impoverished population in the cities and towns in China. Given the poverty line at 1 US dollar per person per day, the urban incidence of poverty in China in 1990 was only 1.00%, while based on the rural poverty line at RMB 300 yuan per person per year, the poverty incidence in rural China was as high as 9.4% in 1990. In terms of urban and rural poverty incidence, in early 1990s, the impoverished population were mainly in rural areas in China, and there was almost no impoverished population in cities and towns in

China according to the rural poverty line. However, since then, urban poverty has gradually grown into a big problem in China. Between 1988 and 1999, the urban poverty incidence in China was on the rise. In 1993, the Minimum Living Standard Scheme for Urban Residents was piloted in Shanghai. With the advancing reform of state-owned enterprises, the number of laid-off workers in cities and towns increased significantly, and the problem of urban poverty gradually raised social concerns making meeting the basic living needs of laid-off workers a major challenge for the governments. In order to solve the poverty problem of laid-off workers in cities and towns, the social security system that guarantees urbanites a minimum standard of living (hereinafter referred to as “the minimum living guarantee”) was launched, as a precedent for social assistance in China. In 1997, the State Council issued the *Notice on Establishing the Urban Minimum Living Security System across the Country*, requiring to establish “such a system by the end of 1999 in county-level cities and towns where county governments are located”. By then, social assistance for the impoverished population had been fully launched in cities and towns in China. Between 1998 and 2002, the number of people receiving minimum living allowances increased sharply, from 1,841,000 in 1998 to 20,647,000 in 2002. The urban minimum living allowances had played an important role in ensuring the basic livelihood of urban low-income groups. Thus, relatively independent urban and rural social assistance systems had been established.

Pilot projects of minimum living security systems were launched in rural areas almost at the same time as in cities and towns, but moved on at a relatively slow pace. Between 1993 and 1994, the rural minimum living security system was piloted in some areas, by 1995 and 1996 this system had been promoted in some provinces, but it had been years till 2005 and 2006 when the central government issued documents to encourage regions with ample economic strength to try to build a rural minimum living security system. With the continuous promotion of development-driven poverty alleviation, the size of the impoverished population in rural areas decreased sharply, but there were still impoverished people scattered in wide regions struggling for basic necessities like food and clothing. This impoverished population needed further assistance from the government to ensure their basic livelihood, but they could not be lifted out of poverty through development-driven poverty alleviation. Therefore, in 2007, the State Council issued the *Notice on Establishing the Rural Minimum Living Security System across the Country*, for the over-all promotion of the minimum living security system in rural areas. In the process of eradicating absolute poverty under the existing poverty standards, the rural minimum living security system helped secure the basic livelihood. In 2020, the Ministry of Civil Affairs, which was implementing the minimum living security, and the State Council Leading Group Office of Poverty Alleviation and Development (now the National Rural Revitalization Administration), which was promoting poverty alleviation policies, jointly issued the Action Plan for Poverty Alleviation through Social Assistance, to strengthen social assistance with the rural minimum living security, and to perfect the poverty monitoring and reporting mechanism.

The urban and rural social assistance systems still have a difference in the minimum living security standards, but they are institutionally consistent. The separation of urban and rural social assistance systems was not permanent but developed with changing characteristics of the impoverished or low-income population. With the elimination of absolute poverty in rural areas, rural and urban minimum living allowances would progressively merge. The *Interim Measures for Social Assistance* issued in 2014 incorporated urban and rural minimum living allowance into an integrated system, focusing more on the necessary living expenses of residents with no distinguishment between urban and rural minimum living allowance.

The minimum living security system mainly targets those families whose members living together have an average income lower than the local minimum living security standard. However, of employees, there were still low-income groups, whose incomes should be secured with a minimum wage system. In 1993, the then Ministry of Labor issued the *Provisions on Minimum Wages in Enterprises*, proposing that the minimum wages should be determined by referring to local minimum living expenses, average wages of employees, labor productivity, urban employment status and economic development, and should be higher than local standards of social relief fund and unemployment insurance fund. The *Labor Law* promulgated in 1995 established the minimum wage system. In 2004, the Ministry of Labor and Social Security promulgated the *Regulations on Minimum Wages*, stipulating the minimum wage standard should be adjusted from once a year to at least twice a year, and the income that should be covered by the minimum wage standard and that should be excluded. For example, when calculating whether the employee's income is lower than the minimum wage standard, the overtime income and allowances for special types of work should be excluded. At the same time, it was worth noting that with the deepening reform of state-owned enterprises, more forms of part-time employment mushroomed. In 2004, the newly issued *Regulations on Minimum Wages* defined the hourly minimum wage system, to protect the rights and interests of part-time workers. The *Law of the People's Republic of China on Employment Contracts* took effect in 2008 and put forward more relevant provisions for the minimum wages. The *Opinions on Deepening the Reform of Income Distribution System* issued in 2015 further altered the adjustment frequency of the minimum wage standard, and proposed that "by 2015, the minimum wage standards in most regions should be raised to more than 40% of the average wage of local urban employees".



From “guarantee for basic livelihood” to “provision for wellbeing”, security for people’s livelihood upgraded—a social assistance security system was established in Dezhou City, Shandong Province, and helped 22,258 people out of difficulties. In addition, a dynamic mechanism was established to keep track of 213,000 people in five categories, namely, families in need of support of basic livelihood, extremely impoverished families, families nearly in need of support of basic livelihood, families of absolute poverty for major accidents, illnesses or children’s education and financially vulnerable families. *Source* A Report on the Social Assistance System of Dezhou City by the Voice of China, CNR: From “Guarantee for Basic Livelihood” to “Provision for Wellbeing”, Security for People’s Livelihood Upgraded, <http://sdxw.iqilu.com/w/article/YS0yMS0xMjM3MTMzNw.html>

From the perspective of labor market theory, there is great uncertainty to ensure the labor income of low-income people with the minimum wage which is closely related to the structure of the labor market, the state of supply and demand, labor mobility

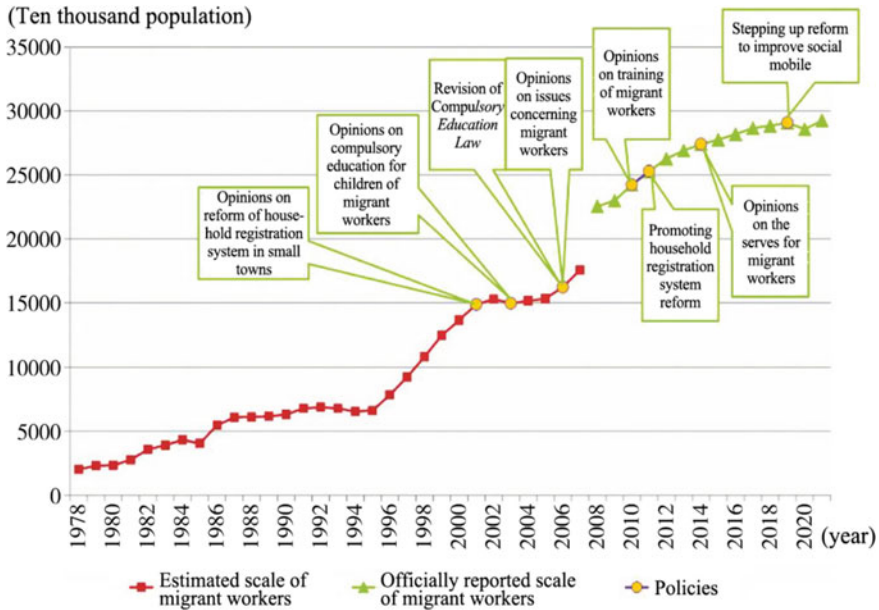
and the relationship between labor and capital. On one hand, a minimum wage standard higher than the labor market equilibrium may lead to a higher unemployment rate, which is not conducive to ensuring the incomes of low-income groups and narrowing the income gap. On the other, the minimum wage standard also has a certain spillover effect. The rising labor income of low-income groups can also promote the incomes of middle-income groups to increase, helping to expand the middle-income groups. According to existing studies, the rising minimum wage standard has a certain spillover effect on the wages of male and female employees, exerting a stronger influence on the groups with lower wages and weaker on the groups with higher wages. After being implemented, the minimum wage system not only helped raise the wages of low-income groups, but also curb the widening rate of the income gap among urban residents. Meanwhile, the rising minimum wages have significantly narrowed the income gap among migrant workers, which may be one of the factors helpful to narrow the overall income gap in recent years.

4.3 Sharing Economic Development Achievements with Migration Movement

The rural labor transfer in China, known as the largest population migration movement in history, has played a decisive role in narrowing the income gap and raising the incomes of low-income groups. In 2021, the total number of migrant workers reached 290 million, including 170 million migrant workers and 120 million local farmers engaging in non-agricultural productions. It has been more than 30 years since the “wave of migrant workers” first appeared. During this period, the number of migrant workers continued to increase, except a slight drop in 2020 due to COVID-19. In the transformation from the planned economy to the market economy, the policy concerning the rural labor transfer in China continuously evolved, to adapt to changing conditions. In the planned economy era, the flow of rural labor force into cities and towns was strictly restricted. The implementation of the rural household contract responsibility system and the substantial increase in agricultural productivity greatly eased the shortage of food. At the same time, the non-public economy began to develop due to the changes in strategies which used to place priority on the development of the heavy industry. All these provided necessary conditions in the labor market for the migration of rural labor. In order to meet the needs of the labor market, the *Notice on Rural Work in 1984* raised the restrictions on the flow of farmers to cities and towns.

Due to an economy featuring urban-rural dual economic structure in China and separated urban and rural basic public service systems based on household registrations, it was difficult for migrant workers to obtain basic public services completely consistent with urban residents, thus the urbanization of permanent residents was considered as “superficial”. To secure migrant workers with urban basic public services, the equalization of basic public services was started in 2001. In 2003, the

Notice on Issuing the Opinions of Improving Education of Children of Rural Migrant Workers was released, which proposed that “local governments of the cities where the rural migrant workers migrate to shall be responsible to provide compulsory education, mainly through full-time public primary and secondary schools, to the children of these migrant workers.” *The Compulsory Education Law* revised in 2006 further safeguards relocated children of migrant workers an equal right to compulsory education in cities other than their household registration place. In the face of the impact of 2008 International Financial Crisis on employment, the *Guiding Opinions of the General Office of the State Council on Further Improving Training for Migrant Workers* was issued in 2010. In 2011, for the reform of the household registration system, the *Notice of General Office of the State Council on Actively and Steadily Promoting the Reform of Household Registration System* was issued, categorizing and clarifying household registration transfer policy. In 2014, it was stressed in the *Opinions of the State Council on Further Improving Services for Migrant Workers* that basic public services would be gradually configured according to the size of the permanent population, meaning basic public service coverage would be expanded from locally registered residents to permanent residents. According to the *Guideline on Stepping up Reform to Improve Social Mobility of Labor Force and Talent* issued in 2019, restrictions on residence registration would be completely lifted for cities with a residential population of less than three million in urban areas, and conditions for residential settlement would be relaxed for large cities with a residential population of three million to five million in urban areas, and the settlement policies for megacities with a residential population of above five million in urban areas would also be improved. The equalization of basic public services would be further promoted, and permanent residents would enjoy the same basic public services, with the residential population, such as education, employment and entrepreneurship, social insurance, health care and housing security.



Basic public services changes for migrant workers. Note: estimated number of migrant workers = urban population minus non-agricultural population. *Data source* collected from *China Population & Employment Statistics Yearbook*, *Statistical Communiqué on National Economic and Social Development* and *Report on the Dynamic Monitoring of Migrant Workers* over years

The large-scale migration of rural labor was of great significance to lifting rural impoverished population out of poverty and reducing the income gap between urban and rural areas. With the development of the market economy, the relationship between wages and labor productivity becomes tighter, reflected in increasing inequality among employees and among urban and rural residents, and even greater gaps between urban and rural areas at the same time. The greater urban-rural gap was because generally, it was difficult to accurately collect data on the permanent migrant population and their household income. The urban-rural gap might not be as large as observed if the income of all migrant workers and their families were calculated. It was worth noting that when taking into consideration the impact of migrant workers on the income gap between urban and rural areas, both the income growth of migrant workers and urban residents should be counted. For migrant workers, they experienced discrimination in the labor market changing with alternating labor market structures. As the oversupply of migrant workers turned into a shortage, the discrimination faced by migrant workers in the labor market would be reduced. In recent years, the wage gap between migrant workers and local urban labor was mainly caused by the differences in human capital, but least from discrimination. The migration of farmers from agricultural production with lower labor productivity to industries with higher labor productivity would undoubtedly increase the wage income of rural residents, at least these migrant workers.

The period when migrant workers migrated to cities and towns for employment was also a period of rapid income growth for urban local residents. Research showed that the wages of migrant workers hardly grew before 2002 but rose quickly rapid after 2002, while the wage income of urban residents steadily grew between 1990 and 2002, with an average annual growth rate of 15.36%, meaning when migrant labor and urban labor shared the pie of labor income, the group with a higher income growth rate would take a larger share. Since 2002, with a sharp rise in the wages of migrant workers, the income distribution model in the urban labor market had gradually changed. Between 2002 and 2007, although the average income growth rate of migrant workers was still lower than that of local urban workers, the income growth rate of middle to lower income migrant workers was higher than that of local urban labor. Between 2007 and 2013, the average income growth rate of migrant workers, of any income range, was significantly higher than that of local urban labor, meaning that since 2007, the income distribution in the urban labor market was fully favorable to migrant workers, boosting the wages of migrant workers to grow faster. The change was consistent with the results of the macro income distribution. In 2009, the Gini coefficient of income distribution in China turned downward.

If the employment and income of migrant workers are fully considered, the urban-rural income gap might be narrower than that when such income of this group is omitted. With substantial increases in the income of migrant workers in recent years, their income growth rate has even comprehensively topped that of local urban labor. When the income distribution structure in the urban labor market favors migrant workers more, it the urban-rural income gap would turn downward from continuous widening. Improving the income of rural residents and narrowing the urban and rural income gap is also a core goal of rural revitalization.

4.4 Further Expanding Employment

China is a country with a large population, while labor income is the main source of income for most people, and the fundamental way to lift the rural impoverished population out of poverty and to increase the income of low-income groups. Expanding employment and reducing unemployment have always been of great importance to the Chinese government. The 19th CPC National Congress clearly defined employment as the pivotal to people's wellbeing. Employment is the induced demand of economic development, while economic growth is the premise of expanding employment. Stimulating the development of labor-intensive industries can create a large number of job opportunities, contributing greatly to continuous employment expansion. While the economy develops smoothly, employment difficulties can largely be overcome with economic development. However, in the face of external impacts and destructive creation, it would be necessary for the government to intervene and help expand the reemployment of unemployed groups. Since the reform and opening-up, there were several major shocks for employment. In response to the employment issues for different groups, the government introduced corresponding support

policies, to overthrow certain conventions and establishing others, and made more targeted employment expansion, greatly easing the employment problem.

The problem of employment always exists, but it would not always be the same groups that face employment issues. Change is a constant topic. For different typical groups with employment difficulties, China has issued targeted and practicable policies based on the actual conditions. Before the reform and opening-up, there were limited choices for employment. At the early stage of reform and opening-up, the return of educated urban youth to cities from the countryside brought great pressure on urban employment. In order to solve the employment problem for the educated youth back to cities, the National Labor and Employment Work Conference held in 1980 put forward the policy of “One out of Three Choices”, meaning the government would combine three methods of introduction by employment departments, voluntarily-organized employment and self-employment, which was undoubtedly an important breakthrough in the employment model since at that time jobs were assigned according to plans. Although there was employment pressure every year, with advancing reform and opening-up, rapid economic development absorbed expanding employment demand. The pressure on employment grew prominent again in cities due to the reform of state-owned enterprises at the end of the 20th century. The reform brought state-owned enterprises and the market vitality, and laid-offs from state-owned enterprises in a great number. To promote the reemployment of laid-off workers, government departments made tremendous efforts including enhancing the workers’ capacity for reemployment, improving the matching efficiency of labor market, and accelerating the construction of the social security system. In 2002, the State Council issued the *Notice on Further Expanding Reemployment of Employees Laid-off*, and had been paying close attention to the reemployment of laid-off workers for many years ever since, in addition to many measures taken to expand reemployment, including reemployment training for laid-off workers, encouraging them to seek for jobs independently or self-employment and incenting enterprises to take in laid-off workers. Meanwhile, the governments provided certain subsidies to laid-off workers flexibly employed when they reported their employment and participated in social insurance. In addition, in order to relieve the impact of layoff, a great number of families affected in cities across China began to receive unemployment relief funds and urban minimum living security, which helped secure the basic livelihood for laid-off workers before reemployment.

In 2008, an international financial crisis broke out, shocking the foreign trade industry in China. The labor-intensive foreign trade industries were major employers of migrant workers, so migrant workers faced an unprecedented employment challenge. In order to respond the challenge and expand employment of migrant workers, the State Council issued the *Guiding Opinions on Further Improving Training of Migrant Workers* in 2010, proposing to “try to ensure migrant workers in need complete one or more training sessions and master a practical skill for employment by 2015.”

As China entered new economic normal and the economic growth slowed down, it was put forward at the Central Economic Work Conference in 2018 the employment priority policy, and placed it at the core of China’s macro policy. In the face of

the sudden outbreak of COVID-19, at the two sessions of the National People's Congress (NPC) and the Chinese Political Consultative Conference (CPPCC) in 2020, it was proposed to ensure security in six areas of employment, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments, commonly known as “six securities”, and then to ensure stability on six key fronts based on six securities, namely employment, financial operation, foreign trade, foreign and domestic investment, and expectations. The idea of ensuring stability on six fronts was first proposed in 2018 against the trade frictions between China and the US. The “six stabilities” place top priority on employment, and also pay attention to stable expectations. As to the content of “six stabilities” and “six securities”, the importance of employment is self-evident as it comes first. However, the stability and the security of employment rely not on the labor market alone, but require the joint efforts of multiple institutions and policies. So, the central and local governments have successively issued a number of policies specific for sectors including finance and taxation, financial supply, social security, etc., to promote enterprises to resume production, so as to expand employment.



The large-scale Convergence Media recruitment action branded IGVOPIN has been held for three consecutive quarters. As of July 2022, 38,000 enterprises had registered over the IGVOPIN platform, providing more than 3.29 million jobs and receiving more than 11.31 million resumes, effectively helping to stabilize and ensure employment. The picture shows the Enterprise Promotion Shanghai Session themed “IGVOPIN for Precious Youth” held in Shanghai to attract professionals. *Source* CNR, “Enterprise Promotion Shanghai Session themed “IGVOPIN for Precious Youth” Launched in Shanghai to Attract Professionals”. http://news.cnr.cn/native/gd/20220726/t20220726_525933408.shtml

In terms of medical assistance, after the outbreak of COVID-19 in Wuhan, Hubei Province at the end of December, 2019, in January 2020 the National Healthcare Security Administration and the Ministry of Finance jointly issued the *Notice on Ensuring Medical Security against Novel Coronavirus Pneumonia*, putting people's lives and health at first place, and clearly demanded that people should receive timely medical treatment despite of the costs. Subsequently, the Ministry of Finance and the National Health Commission jointly issued a document to clarify the subsidy policy for medical bills of COVID-19 patients, and for medical staff, and for the purchase of required equipment. With strong support from financial funds, the epidemic of COVID-19 was brought under control, and the increases in domestic new cases, severe cases and mortality decreased significantly, and eventually went down to zero, laying a foundation for the resumption of work and production.

The governments strengthened the financial support centering on reasonable and sufficient liquidity, and monetary and credit support to prevent forced early repayment of loans, arbitrary termination of loan agreements, or delayed loans against these enterprises greatly affected by the epidemic, especially small and micro enterprises, allowed enterprises with difficulties in repaying due loans for being seriously affected by the epidemic to extend or renew the loans, and helped enterprises tide over the difficulties with credit support to secure the employment of these enterprises.

To expand employment and ensure, the employment of key enterprises, the governments granted one-time employment subsidies to enterprises that resumed production and distribution of materials urgently needed for epidemic prevention and control before February 9, 2020, emphasizing on epidemic prevention and control of workers, and improvement of the production and living conditions, supported the stable employment of small, medium-sized and micro enterprises, increased subsidies for training and established special reward and subsidy funds for industrial enterprise restructuring, and supported individuals and small and micro enterprises that temporarily lost the sources of incomes due to the impact of the epidemic by giving priority on their loan applications.

In terms of social insurance, within a certain period, small, for medium and micro enterprises, the employer payment portion of the three social insurances was exempted, and for large enterprises and other participants (excluding government agencies and institutions), the employer payment portion was halved, effectively reducing the burden of social insurance on small, medium and micro enterprises.

The epidemic of COVID-19 has severely affected world economic development. The *World Development Report 2022* pointed out that in 2020, about nine out ten economies around the world suffered a weak economy, but by 2021, 40% of developed economies had recovered and exceeded the production level in 2019, while only 27% of middle-income countries and 21% of low-income countries had made this. In 2020, although China managed to record a positive GDP growth, though the rate decreased significantly to 2.3%. In 2021, the GDP growth rate in China's rebounded to 8.1%, realizing an average growth rate in 2020 and 2021 of 5.1%, significantly higher than that in 2019.

At the same time, China continued to expand the employment at a certain rate, with the employment of migrant workers, which was greatly affected by the epidemic,

increasing significantly in 2021. The total number of migrant workers in 2021 increased by 2.4% over 2020, exceeding that in 2019.

Chapter 5

Promoting All-Round Development of People



To promote people's all-round development and to achieve common prosperity, it requires social equity and justice, meaning at a higher level to make steady progress in ensuring people's access to childcare, education, employment, medical services, elderly care, housing, and social assistance, so that the fruits of development can benefit all the people more fairly. Since the founding of the PRC, under the leadership of the CPC, the people of the whole country has made great efforts in education, health and medical care, improving housing conditions, and building and improving social security system, promoting people's all-round development, and progressing toward the goal of common prosperity.

5.1 Developing Fairer and Higher Quality Education

Education, as the most important component of human capital, is a major contributor to economic growth. Fair and high quality education is an important cornerstone of social equity, and contributes to the harmonious development of society and the realization of common prosperity. Since the founding of the PRC, remarkable achievements have been made in China's education during the historic transformation from a country with a large population to a country with an abundance of human resource. In early days of new China, China was extremely backward in terms of education. In 1949, 80% of China's population was illiterate, the enrollment rate in primary and junior high schools were only 20 and 6%, and there were only 117,000 college students. After more than 70 years of development, by 2020, the illiteracy rate of national population dropped to 2.67%, the average education years received by the population aged 15 and above increased to 9.91, the gross enrollment rate of preschool education reached 85.2%, the retention rate of nine-year compulsory education rose to 95.2%, the gross enrollment rate for senior high school to 91.2%, the number of students in all kinds of higher education totaled 41.83 million, and

the gross enrollment rate for higher education came to 54.4%. These achievements were all resulted from the continuous development of fair and quality education in China.

After the founding of the PRC, China took great efforts in boosting fair education, and managed to establish a relatively complete people's education system in a very short time. The *Common Program of the Chinese People's Political Consultative Conference* was adopted at the first Plenary Session of the Chinese People's Political Consultative Conference in September 1949, and it pointed out that "China's cultural education is a national, scientific and popular cultural education" and that "universal education should be implemented in a planned and step-by-step manner". The *Constitution of the People's Republic of China*, adopted in 1954, defines, in the form of law, the rights and obligations of Chinese citizens to receive education, and proposes to popularize primary compulsory education and to develop secondary, vocational, higher and pre-school education. Universal education focuses on education equity, while strengthening all kinds of education is the concrete manifestation of a complete education system. To promote equal access to education, in addition to popularizing primary education, it should be guaranteed for the enrollment ratio of secondary education for young workers and peasants and their children. The nationwide literacy campaign launched in 1951 greatly reduced the illiteracy rate in rural areas, and promoted educational equity. After several years of experience in education development, China promulgated *Provisional Regulations on the Work of Institutions of Higher learning Directly under the Ministry of Education of the People's Republic of China (Draft)* in 1961, *Provisional Regulations on the Work of Full-time Middle Schools (Draft)* and *Provisional Regulations on the Work of Full-time Primary Schools (Draft)* in 1963, establishing a standard and relatively complete school education system. Though during 1966–1976, the teaching order was once disrupted, colleges and universities adopted an enrollment method combining recommendation and selection instead of entrance examination, and exams were abolished in primary and secondary schools, the number of primary and secondary school students, especially of rural students, increased significantly.

Since the reform and opening-up, China has attached great importance to the development of education. Just after the reform and opening-up policy was carried out, China resumed the unified college entrance examination system and sent students to study overseas in great numbers. At the 12th CPC National Congress, education and science were set as one of the three strategic priorities for economic development. In 1986, *Compulsory Education Law of the People's Republic of China* took effect, marking China began to popularize nine-year compulsory education, meaning further popularizing primary secondary education on the basis of universal primary education. In 1992, the 14th CPC National Congress approved the "two basic goals" of "basically eliminating illiteracy among young and middle-aged adults and making nine-year compulsory education basically universal". By the end of 2011, the "two basic goals" had been basically achieved, realizing universal nine-year compulsory education, and bringing the illiteracy rate among young and middle-aged adults down to 1.08%. Affected by Asian Financial Crisis and to meet the needs of economic development, the CPC and the government made a major decision in 1999 to expand

the scale of higher education. Since then, the enrollment has expanded extensively and the gross enrollment rate for higher education has been on the rise. Besides, to ease the kindergarten crunch, China began vigorously developing of preschool education in 2010, and the gross enrollment rate for preschool education reached 85.2% by 2020.

Besides general education, in order to meet the needs of economic development for vocational and technical personnel, China also pays great attention to vocational education, forming a dual-track system of general education and vocational education. At the beginning of reform and opening-up, technical secondary schools and technical schools were reopened and vocational high schools vigorously developed. In 1996, *Vocational Education Law of the People's Republic of China* was promulgated, which clearly defined primary, secondary and higher vocational schools in China, and established the legal status of vocational education in the education system. In 1998, *Action Plan of Invigorating Education toward the 21st Century* clearly proposed to establish a vocational education system composed of primary, middle and high schools matching general education to enable “three-staged stratification”. In 2004, the *Opinions on Deepening Employment-oriented Reform of Higher Vocational Education* defined the employment orientation of vocational education. In order to promote the development of the teaching quality of vocational education, the Ministry of Education and the Ministry of Finance launched a plan to construct national demonstrative higher vocational colleges in 2006, and selected 100 higher vocational colleges as key demonstrative projects, and then another 100 national pillar higher vocational colleges. In 2010, China began the construction of 1000 demonstration secondary vocational schools. The *Opinions on Piloting Modern Apprenticeship System* was issued in 2014, marking the start of reform in the professional training model of vocational education. Since then, the reform has improved the integration between production and education and between production and learning, which is helpful to play the role of vocational education in promoting economic growth. After years of development, the structure of general and vocational education has been continuously improved.

Education equity has been steadily improved since the reform and opening-up, mainly demonstrated by the fact that the tuition and miscellaneous fees for students receiving compulsory education in rural areas were exempted since 2005, and in urban areas since 2008, which solved the dropout issue of children of low-income families, especially of rural low-income families due to economic reasons. Besides, it is conducive to universal compulsory education, helping improve the degree of education for children of low-income families and education equity, while blocking the intergenerational transmission of poverty. The reform of teaching management and fund guarantee system is conducive to educational equity, too. In 2001, the “county-based” compulsory education management system replaced the township-based system, to better stabilize rural education. For teaching funds, the State Council issued *Notice on Deepening Reform of Fund Guarantee Mechanism for Rural Compulsory Education* in 2005, to gradually incorporate rural compulsory education into the public financial security system, and establish a funding guarantee mechanism for rural compulsory education with central and local governments sharing the funding

by projects and pro rata, to guarantee funding to support the exemption of tuition and other fees of compulsory education and universal compulsory education. Financial aid and loans for students at different stages also promote educational equity by improving access to education for children from poor families. For the large number of children of the migrant population, China put forward the “two-main-way” policy that “local governments of the cities where the rural migrant workers migrate to shall be responsible to provide compulsory education, mainly through full-time public primary and secondary schools”. In addition, in order to achieve balanced development of education and educational equity, the central government has taken various measures to promote the preferential allocation of educational resources to rural areas, central and western, ethnic minority and poverty-stricken regions in China. For example, the classes of students from Xinjiang and Xizang in inland schools have created conditions for talent training for Xinjiang and Xizang. Since 1985, Xizang has implemented “Three Exemptions” policy for children of farmers and herdsmen receiving compulsory education, meaning the governments provide free food, clothing and dormitory (now as free food and dormitory, and free charge of tuition). In 2011, Xizang became the first provincial administrative prefecture in China to provide 15 years of free education from preschool to secondary school, followed by Xinjiang in December 2017.



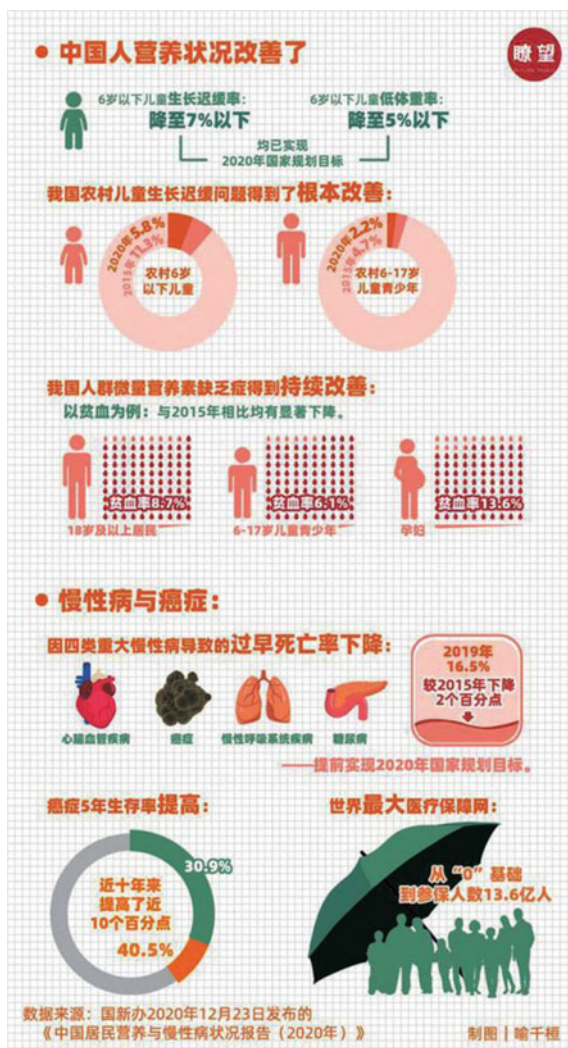
Located in the deep of Damiaoshan Mountain at the junction of Guangxi and Guizhou, Dangjiu Primary School, Gangdong Township, Rongshui Miao Autonomous County, Guangxi had experienced great hardship in its teaching environment. In recent years, the hardware facilities of Dangjiu Primary School have been comprehensively upgraded. The upper left and middle of the above picture is the wooden teaching buildings used by Dangjiu Primary School before 2006; the upper right of the above picture shows the teaching building of Dangjiu Primary School from 2006 to the time before the renovation; The lower part of the above picture presents Dangjiu Primary School since upgraded in 2019. *Source* Xinhua News Agency, "Pictures in Memory of Poverty Alleviation—Military and Civilian Joint Efforts to Help Primary Schools in Miaoshan Mountainous Area to 'Grow'", <https://baijiahao.baidu.com/s?id=1666921981398312865&wfr=spider&for=pc>

5.2 Sustainably Developing Medical and Health Services

Health is the most fundamental part of human capital. Good health means high quality of life. Further improving national health is not only an inherited requirement and a key goal for common prosperity, but also a basic guarantee and important support for common prosperity. Since the founding of the PRC, China has comprehensively improved the health condition of its population, extending the life expectancy at birth from 35 years in 1949 to 76.9 years in 2019, reducing the maternal mortality rate from 59.0/100,000 in 2000 to 16.9/100,000 in 2020, and the infant mortality rate and under-five mortality rate from 83.4 and 118.4 ‰ in 1969 to 5.5 and 7.3 ‰ in 2020 respectively. These achievements are inseparable from the development of China's medical and health services.

In the early days of the PRC, there was a serious shortage of doctors and medicine in most areas of China, and a lack of health knowledge and good habits, but rampant endemic and infectious diseases. In order to change the situation as soon as possible, the governments focused on the prevention of epidemics that seriously endanger people's health and diseases that seriously threaten the lives of mothers and infants, and the construction of grass-root health organizations. As a result, the medical and health environment in China was effectively improved quickly, with plague basically being put under control in 1955, smallpox being exterminated in the early 1960s, cholera being wiped out in China, and schistosomiasis being effectively controlled and treated. In terms of health agencies, in 1949 there were only 3670 medical and health establishments in China (most were hospitals, accounting for 70.84%), and almost no medical institutions in the vast rural areas. So, the central government focused on constructing medical and health institutions in rural areas. By 1960, the number of medical and health establishments in China had increased to 261,195, including 6020 hospitals, with the largest hike in the number of outpatient clinics (most turned into village clinics later) and township health centers. Specifically, the number of outpatient clinics rose from 769 in 1949 to 213,823 in 1960, and township health centers from 0 to 24,849 in 1960. Disease prevention and control centers (epidemic prevention stations) flourished rapidly, reaching 1866 in 1960,

making important contributions to the treatment and prevention of various infectious diseases. By 1965, medical and health institutions were established in communes and counties, and even in production teams in the vast majority of rural areas, forming a relatively complete three-tiered health care network, which greatly improved the accessibility of medical and health services in rural areas, greatly improving the short supply of medical care services and medicine in rural areas, equalizing the allocation of medical and health services, and realizing significant increases in national health indicators. The establishment of the basic medical security system also made large contributions to the improvements of health conditions. Meanwhile, the medical services under labor insurance for enterprise employees, and the publicly funded free medical care system for personnel at government agencies and institutions, were established in cities and towns, covering most urban workers and their family members, while the cooperative medical care system provided a medical guarantee for rural residents, helping reduce the economic burden of patients to some extent. By 1981, the life expectancy in China had risen significantly to 67.8 years, and the infant mortality rate had dropped to 37.6 per thousand. For these great achievements in medical and health services, World Health Organization highly praised China as “a model for developing countries”.



Improvement of nutrition and chronic diseases of Chinese residents during the period of the 13th Five-Year Plan. Source xinhuanet, “Outlook Footprints of Governance|The Construction of a Healthy China: For the New Expectations of the People”, <https://baijiahao.baidu.com/s?id=1708053802853314293&wfr=spider&for=pc>

With advancing reform and opening-up and marketization, the medical and health system was constantly improved, too. During the era of the People's Commune, the village clinics were supported by the collective economy, with the production teams affording the operating expenses. Since the reform and opening-up, these clinics faced funding problems for the disintegration of the people's communes. To adapt to the development of marketization, most village clinics turned into private clinics that operate independently for their own profits or losses. These county and

township health institutions were transformed into publicly-funded institutions, but the proportion of financial allocations continued to decline, so these institutions gradually turned to paid services to maintain operation. The same was true for urban hospitals as they became more autonomous and received less direct subsidies from the state. To improve the accessibility of basic medical services in urban areas, China began to develop community health services in 1997 and construct community health service centers. In addition, a large number of private hospitals and small clinics emerged after the government relaxed the approval standards for non-public medical institutions, forming a three-tiered medical service supply system composed of multiple service providers and covering urban and rural areas, and making medical services more available. The statistics indicated that the number of medical and health institutions increased sharply from 180,553 in 1980 to 1,022,922 in 2020, while the number of hospitals surged from 9902 to 35,394, and the number of community health service centers jumped to 35,365. In rural areas, the number of township hospitals and village clinics decreased slightly, but that of outpatient clinics increased significantly, from 102,474 in 1980 to 289,542 in 2020. Due to the outbreak of SARS in 2003, the central government strengthened its capacity in coping with public health emergencies, built the world's largest monitoring network for infectious diseases and public health emergencies, and set up an emergency prevention and control team, greatly improving the overall condition of public health and the capacity to prevent and control diseases.



In June 2020, nearly 25,000 poor families in Nankang District, Ganzhou City, Jiangxi Province received medical kit containing essential drugs for health care and medical supplies. The picture shows doctors from Health Center of Fushi Township, Nankang District explaining the use of medicine in the medical kit for villagers. *Source* Li Hongmei, "A Solid Network of Rural Medical and Health Services", *People's Daily*, Page 19, June 29, 2018

China has built the world's largest basic medical security network. During 1966–1976, the responsibility to secure medical insurance for urban employees was transited to the enterprises from the state, placing varied burdens on enterprises. As the market-oriented reform deepened, enterprises of various ownership developed side by side, making medical services under labor insurance for employees of state-owned enterprises unsuitable in the market economy. The burden gap between newly-founding and established enterprises was large, too, which was not conducive to fair competition in the market. In 1989, China began the reform in medical insurance by piloting different individual payment method. In 1993, the Ministry of Labor successively issued the *Opinions on Pilot Reform of Medical Insurance System for Employees* and the *Supplementary Notice for Opinions on Pilot Reform of Medical Insurance System for Employees*, requiring the establishment of a medical insurance system covering all employees with the premium shared by the state, employers and individual employee. Summarizing the experiences from the pilot reform, the State Council issued the *Decision on Establishing Basic Medical Insurance System for Urban Employees* in 1998, marking the formal establishment of the medical insurance system for urban employees, which combined social pooling with individual accounts, and was to expand to cover all employers in cities and towns.

Upon the disintegration of the people's communes, the rural cooperative medical care gradually grew ineffective, and some regions began the exploration of new medical insurance models such as collective medical care with raised funds and social medical care. In 2002, the State Council issued the *Decision on Further Strengthening Rural Health Work*, requiring “to establish and improve the rural cooperative medical system and medical assistance system”. In 2003, China began to pilot the new rural cooperative medical system, which was popularized nationwide in 2007.

The medical insurance system for urban non-employed residents was established relatively late, since the urban medical insurance was piloted in 2007 and fully launched in 2009. By then, China had established a medical insurance system that covered all the people. Due to the low payment of medical insurance for urban and rural residents, a major disease insurance scheme for urban and rural residents was established in 2015.

Because of the institutionally separated medical insurance systems, different groups were covered by different medical insurance systems managed by local governments, mostly by a county, and with a weak capacity of risk sharing. Besides, there were also difficulties in claiming payment for migrant population cross pooling regions. Therefore, in 2016, the State Council issued the *Opinions on Integrating Basic Medical Insurance Systems for Urban and Rural Residents*, to integrate the basic medical insurance system for urban residents with the new rural cooperative medical system. To solve the difficulties for migrant workers in claim payments from the medical insurance, the central government continuously improved the unity of medical insurance management, and launched cross-provincial settlement services to inpatient in 2016. By 2021, cross-provincial settlement services to inpatients had covered all pooling regions and all the insured, providing effective medical security for people across the country.

Along with advancing marketization, the medical service system was continuously improved, but then came another problem of rising medical expenses, as patients are used to gathering in large hospitals in large cities for medical treatments, causing the problems of difficulties in accessing to and high expenses of medical treatment. Therefore, in 2006 at the 6th Plenary Session of the 16th CPC Central Committee adopted the *Decision of the CPC Central Committee on Several Major Issues Concerning Building a Socialist Harmonious Society*, which proposed to “adhere to the public welfare attribute of public health and medical services and deepen the reform of the medical and health system”. In 2009, a new round of medical and health system reform was launched and implemented, under the clearly defined basic principles of ensuring the basic services, bolstering support at the community level and building sound institutions as well as the target of realizing universal access to basic medical and health services. To solve the difficulties in accessing to medical services, China improved the capacity of primary medical service institutions, and integrated medical service resources, to categorize patients for hierarchical diagnosis and treatment. To improve the medical service capacity of county hospitals, in 2004 ten thousand doctors were sent to the county hospitals, to intensify the partner support of first-class hospitals at grade 3 to county hospitals. Medical associations are established in cities to help push the development of small hospitals with the help from large ones, and medical communities are founded in rural areas to boost cooperation between county and township hospitals. Standard pieces of training are being carried out for resident doctors, so as to equalize the expertise of doctors and medical and health services in different hospitals. Meanwhile, by improving the payment model of medical insurance, and applying different ratios for medical insurance payments for different hospitals, China is trying to guide different medical service demands to be met at different levels of medical services. In terms of the high costs of medical services, in addition to the establishment of a medical security system to cover all the people, China has continuously improved the drug policy, to reduce the medicine prices through biddings, and strengthened hospital management, altered the incentive mechanism in hospitals of covering hospital expenses with medicine revenue, thus to reduce medical expenditure. After years of reform in various medical and health systems, the problems of difficult access and high costs have been largely eased, and the medical services have been steadily equalized.

5.3 Boosting the Construction of Housing Security System Gradually

There were different housing supply and security systems in urban and rural areas in China. During the land reform just after the founding of the PRC, rural households were allocated small pieces of land for housing construction in the name of homestead (or *Zhaijidi*). While for urban residents without any land allocated, they got dwellings

mainly through housing distribution. So, mainly urban residents were involved in the housing security system and the reform.

The development of a housing security system for urban residents in China can be divided into three stages: the welfare-oriented public housing distribution, co-existence of welfare-oriented housing distribution and housing privatization, housing marketization and housing security. In the first stage, urban residents mainly obtained housing through welfare-oriented public housing distribution, meaning the governments completely controlled the supply and distribution. Due to a limited supply, urban workers needed to queue up according to seniority and other factors. Before moving to a newly allocated housing, it was common for them to live with parents, or even grandparents, under the same roof of a small house. In 1978, the per capita living area of urban residents was only 6.7 m². To help urban residents move out of the crowded and narrow houses, China began the reform, shifting from the complete welfare-oriented distribution of housing to the commercialization of housing. In 1982, the policy of “three-thirds” housing subsidy was implemented, with the government, the employer enterprises and individual employees each affording 1/3 of housing prices. In 1986, Yantai and other cities piloted the reform of improving housing by individual employees themselves with subsidies from the employer enterprises, while the subsidies from the fund for housing purchasing or construction. In 1988, the State Council issued the *Notice on Gradually Implementing the Plan on Housing System Reform in Cities and Towns Nationwide*, marking the housing reform was launched across the country. The *Decision on Deepening Reform of Urban Housing System* in 1994 defined the objectives of housing reform as “to establish a new urban housing system that matches with the socialist market economy, realize the commercialization and socialization of housing, accelerate housing construction, improve living conditions, and meet the growing housing demand of urban residents”. In the second half of 1998, the allocation of physical houses was stopped, marking the welfare-oriented public housing distribution system came to an end, and commercialized and socialized housing began to conquer the housing supply market. Later, the supply of commodity housing increased significantly. In 2018, the per capita residential floor area of urban residents reached 39 m², 5.8 times that of 1978, meaning great improvements in the living conditions.



In June 2020, 3154 affordable houses were handed over to the owners in Chuanheyuan Community in Yuhua District, Changsha City, Hunan Province. The community consists of 15 high-rise residential buildings, 4 commercial buildings, 1 kindergarten and other supporting facilities. *Source* Xie Wang, Guo Kangli, “The Largest Single Batch of 3154 Affordable Houses Met Their Owners in Yuhua District”, https://www.sohu.com/a/399293103_120054973

The development of commercial housing greatly increased the housing supply, leading to rapid rises in housing prices, too. The high housing prices became a hot housing issue concerned by all walks of life after the reform of the housing supply. To meet the housing needs of low- and middle-income families, secure housing came into being. In 2007, the State Council issued *Several Opinions on Solving Housing Difficulties of Urban Low-income Families*, incorporating low-income groups into the security housing system. The opinion focused on increasing the supply of security housing to alleviate the shortage of affordable housing, clearly stating that “for the newly approved and newly started housing construction projects in cities, the housing with a building area of dwelling size below 90 square meters must take a proportion of no less than 70% in the total development and construction area, and the annual supply of construction land for low-rent housing, affordable housing and medium- and low-priced, small and medium-sized ordinary commodity housing shall not be less than 70% of the total supply of residential land.” Although the affordable housing was priced significantly lower than commercial housing, some low-income families still found it difficult to purchase or rent housing through the market. In order to solve this contradiction between supply and demand, the State Council issued the *Guidelines on Accelerating Development of Public Rental Housing* in 2010, which first incorporated “public rental housing” into housing security, further improving

the housing security system by including both housing “purchase” and “renting” to better meet the housing needs of low- and middle-income households.

As mentioned above, just after the founding of the PRC, urban housing was supplied through a welfare-oriented distribution system. At that time, most of the houses were bungalows of bricks and tiles, with a relatively short duration, and the infrastructure in the community and surrounding areas was relatively backward, too. There were also temporary houses in some industrial and mining areas. In order to improve the living conditions of such housing, Liaoning Province took the lead in launching the redevelopment of these run-down areas in 2004, to transform these shabby and old houses. In 2007, *Several Opinions of the State Council on Solving Housing Difficulties of Urban Low-income Families* required to speed up the transformation of shantytowns taking a certain area. Between 2008 and 2012, the shantytowns transformation involved 12.6 million households nationwide. Since the 18th CPC National Congress, the transformation of shantytowns has continued. The State Council has issued relevant work opinions for years in line, to speed up the transformation of shantytowns. In 2013 and 2014, another 8.2 million houses in various shantytowns were transformed. The transformation of shantytowns not only improved the housing conditions of urban residents, but also effectively increased the housing supply, making great contributions to ensuring housing for low-income families in cities and towns.

The housing supply in rural areas of China is quite different from urban areas. In 2020, as high as 53.18% of rural families lived in self-built houses on their family homesteads, compared to 21.81% in newly-built commercial housing, and a lower proportion of only 6.73% in second-hand housing. However, there were impoverished rural families could not afford to repair or renovate old houses or even dilapidated houses. In order to ensure housing for impoverished rural families, the *Outline of Poverty Alleviation and Development in China's Rural Areas (2011–2020)* clearly defined the transformation of dilapidated houses as an important part of poverty alleviation, and pointed out that “by 2015, 8 million dilapidated houses of poor rural families will be transformed. By 2020, the living conditions of people in impoverished areas should be significantly improved”.



A Comparison of Changjiang village of Tongyuanju Street in Nan'an District of Chongqing before and after reconstruction. *Source* shangyou news, "With A Plan to Implement the Shantytown Reconstruction for 20,000 Households This Year, Chongqing Is to Accelerate the Shantytown Reconstruction Projects in These Areas", <https://www.163.com/dy/article/G9OBDQ4L053469M5.html>

In terms of international comparison, the homeownership rate in China is much higher than that in these developed countries in Europe and America. In 2012, there

were 40 million homes in Germany, of which nearly 24 million were for rent, and up to about 45% of residents in Germany lived in rented homes, while about 1/3 of these tenements in Germany could not afford to buy a home for life. According to the survey by the People's Bank of China of household assets and liabilities of Chinese urban residents, in 2019, 96% of Chinese urban households owned their homes, while 58.4% of households owned one home, 31% with two, and 10.5% with three or more, meaning each household owned 1.5 homes on average. A survey conducted by China Academy of Economic Trend associated to *Economic Daily* indicated that, in 2018, 93.03% of households owned one house, 3.82% owned two or more, and only 3.14% had no house of their own, leaving the average number of houses owned by each household in China at 1.02. Although the two surveys were slightly different in the statistics, they had the same conclusion that the housing ownership rate in China was very high. Through the housing distribution system reform, increasing supply of secure housing and the renovation of dilapidated houses in rural areas, the housing area and living conditions of Chinese households had been significantly improved. With great labor mobility, there emerges a serious mismatch between the locations of self-owned homes and current residences. At the same time, high housing prices still present a prominent challenge. The report of the 19th CPC National Congress pointed out that "we must not forget that housing is for living in, not for speculation. With this in mind, we will move faster to put in place a housing system that ensures supply through multiple sources, provides housing support through multiple channels, and encourages both housing purchase and renting. This will make us better placed to meet the housing needs of all of our people." The continuous reform of the housing supply will help alleviate rising housing prices and the mismatch between self-owned homes and current residences.

5.4 Unceasingly Improving the Social Security System

The social security system is mainly targeted at establishing a security network for citizens, and by playing the role in redistribution, it is also an institutional mechanism to secure the development achievements to be shared by all people, and also an important institutional guarantee for common prosperity. After years of development, China has basically established a social security system with universal coverage, and gradually improved the unity, equity and sustainability of the social security system since the 18th CPC National Congress.

Since the founding of the PRC, China has always paid much attention to the construction of the social security system. Based on *Labor Insurance Regulations*, promulgated in 1951 and amended twice in 1953 and 1956, China established a labor insurance system for urban employees, covering all enterprises and employees other than urban government agencies and institutions. The labor insurance, with expenses fully borne by the enterprises, benefited the employees with payments for work-related injury, medical treatment, childbirth, old-age care, and death and funeral, as well as pension for immediate family members, and other employee welfare, and

their families, too, providing stable social security for the vast majority of urban residents. Labor insurance premiums were organized and managed by trade unions, balanced across enterprises, cities and provinces, and under unified management nationwide, guaranteeing socialist equity among urban employees. However, due to inadequate development and backward economy, the level of security remained low. For the personnel of government agencies and institutions, China developed a social security system for public servants consisting of publicly funded medical care, retirement system and pension system. In addition, the central government also established a corresponding welfare system for the elderly, children and the disabled in cities and towns who had no kin and could not support themselves, forming a relatively complete urban social security system.

Due to the land reform carried out in rural areas just after the founding of the PRC, the lives of farmers were greatly improved. Yet because of limited national financial resources, rural social security mainly relied on mutual assistance of members within collective organizations, and relief from the governments in cases of major natural disasters. The “Five Guarantees” system was a creative rural collective welfare security system with Chinese characteristics, which provided commune members who had no kin and could not support themselves with guarantees of food, clothing, heating (fuel), education (children and adolescents) and burial expenses, by the production teams or production groups through appropriate arrangements and care in production and life, ensuring the basic livelihood for rural vulnerable groups. With the agricultural cooperation movement, a rural cooperative medical care system was established, where these agricultural communes were responsible for the medical treatment of members who were injured or sick on duty, while giving the members appropriate labor days (functioning as wages) as subsidies. Supported by the rural collective economy, clinics, township hospitals and other medical and health institutions were established in rural areas, together with trained “barefoot doctors”, to provide primary medical security for rural residents through mutual assistance and cooperation.

During 1966–1976, the trade unions in charge of urban labor insurance were paralyzed, and the *Opinions on Reform of Several Financial Systems in State-owned Enterprises (Draft)* by the government clearly stipulated that all state-owned enterprises should stop drawing labor insurance premiums, and the labor insurance expenses should be disbursed from non-operating incomes of enterprises, and the necessary expenses should be completed reimbursed by enterprises. Since then, labor insurance was managed by an enterprise, instead of the central government, affecting enterprises differently. Still, the state provided corresponding subsidies to state-owned enterprises that were unable to bear the social security for employees and their families due to bad performance. Meanwhile, rural collective welfare and security system developed rapidly. The development rural collective economy represented by the people’s communes strengthened the cooperative medical system, and the educated youth to the countryside became rural doctors, providing labor support for the rural cooperative medical system, and the “Five Guarantees” system was also consolidated and developed. By 1976, 93% of rural production teams in China had

established the cooperative medical system, covering 85% of the rural population, and greatly improving the health conditions of rural residents.

With the advance of reform and opening-up, China developed the economy of public ownership into an economy of multiple ownerships. Enterprises bore varied burdens, the market competition intensified, making enterprise labor insurance unsustainable. The disintegration of the people's communes caused a weakening rural collective economy, and a gradual collapse of the mutual-assisting rural collective security system dependent on the collective economy. Therefore, the social security system had to be reformed.

A social security system matching the socialist market economy was gradually established. In 1986, the State Council issued *Interim Provisions on Implementation of Labor Contract System in State-owned Enterprises*, *Interim Provisions on Unemployment Insurance for Employees of State-owned Enterprises*, and the *Notice on Issuing Four Provisions on Labor System Reform*, which replaced life-long centralized labor allocation system under the planned economy with labor contract system, and adopted an unemployment insurance system for unemployed workers for the first time, while launched social pooling for pensions of retirees under the labor contract system. The Ministry of Labor and Personnel issued the *Provisions on Employment Autonomy, Wages, Insurance and Welfare Expenses in Foreign-funded Enterprises*, beginning piloting the contributory social insurance system in foreign-funded enterprises. In 1993, at the 3rd Plenary Session of the 14th CPC Central Committee it was adopted the *Decision on Issues of Building a Socialist Market Economy*, which defined social security as the mechanism maintaining normal operation of the market economy and one of the five pillars to the market economy, and proposed to "establish a multi-level social security system" and "the premiums of the old-age and medical insurance for urban employees shall be shared by employer enterprises and individual employees, through combing social pooling and individual accounts".

As to the old-age insurance, in 1995 the State Council issued the *Notice on Deepening Reform of Old-age Insurance System for Enterprise Employees*, and began to pilot an old-age insurance system combining social pooling with individual accounts. In 1997, the State Council established an integrated basic old-age insurance system for enterprise employees based on the experiences from the pilot projects in various regions, but the system was based on a lower level of pooling, mainly within a county. In 2005, the State Council issued the *Decision on Improving Basic old-age Insurance System for Enterprise Employees*, which included people of flexible employment in the basic old-age insurance for enterprise employees. In October 2010, the 11th National People's Congress approved the *Social Insurance Law of the People's Republic of China*, which stipulated that the old-age insurance for urban employees should be gradually nationally pooled and other social insurance funds should be gradually provincially pooled. However, the original retirement system would be kept in place for personnel in government agencies and institutions.

In early stage of the reform, a rural old-age insurance system began to establish in a township or village, but the scale remained small. In 1992, China piloted a county-wide rural old-age insurance system, requiring insurance premium payment by the village as a whole unit, and the premiums were mainly borne by individual

contributions and supplemented by collective subsidies. Besides, the state offered policy support and individual accounts were implemented, commonly known as “the old rural insurance system”. However, due to the low incomes of farmers, weak affordability and willingness to pay the premiums, together with the lack of financial support from the government, the “old rural insurance system” was unable to sustain itself in many areas. In 1999, the State Council halted the “old rural insurance system” since it was considered that the conditions were not right to implement rural social old-age insurance. In June 2009, it was decided at the executive meeting of the State Council to pilot the new old-age insurance for rural residents, and defined the basic principles of “ensuring basic insurance for wide coverage, focusing on flexibility and sustainability”, and the basic model of combining personal accounts and social pooling and relying on three-party contributions of the government, the enterprises and individuals. In 2012, the new rural insurance system was fully rolled out nationwide.

In 2011, the old-age insurance for urban non-employed residents was established, and in 2012, urban residents were basically covered by the old-age insurance system. By then, a social old-age insurance system covering all people was basically established.

In terms of social assistance, during the period of the planned economy, the poverty relief system only covered these people in need without an employer. Since the reform and opening-up, fiercer market competition led to a new urban impoverished population, making it necessary to establish a new social relief system for the whole people. In 1993, Shanghai took the lead in establishing the minimum living security system for urban residents. In 1994, the Ministry of Civil Affairs began to pilot the minimum living security system in the southeast coastal areas, and carried it out nationwide in 1997. In 1999, the State Council promulgated the *Regulations on Guaranteeing Minimum Living Standards for Urban Residents*, describing the minimum living security system in regulation for the first time, and marking the official establishment of the minimum living security system for urban residents. In addition, a comprehensive urban social assistance system, consisting of assistance programs for vagrants and beggars, medical care, education, housing and employment, was gradually established.

The establishment of the rural social assistance system also started from pilot projects. In 1994, Shanghai and Yangquan City, Shanxi Province respectively launched a pilot program of rural minimum living allowances. In 1996, the Ministry of Civil Affairs issued the *Opinions on Accelerating Construction of Rural Social Security System* and the *Guidelines for Constructing Rural Social Security System* on the basis of summarized experiences from piloting, requiring all localities to pilot and steadily promote the rural minimum living security system. In 2007, the State Council issued the *Notice on Establishing a Rural Minimum Living Security System Nationwide*, marking the official establishment of the rural minimum living security system.

In addition, China also established a work-related injury insurance and maternity insurance system for enterprise employees based on piloting. In 1988, the Ministry of Labor hosted discussions on the reform plans for work-related injury insurance, and

carried out pilot projects in Hainan, Guangdong, Fujian, Jilin and other provinces. In 1994, the *Labor Law* stipulated that employees would get help and compensation in case of work-related injury. In 1996, the *Interim Measures for Work-related Injury Insurance for Enterprise Employees* began to be carried out across the country. To further improve the work-related injury insurance system, the *Regulations on Work-related Injury Insurance*, promulgated by the State Council, was officially implemented nationwide on January 1st, 2004, promoting the work-related injury insurance system to the level of administrative regulations. In terms of maternity insurance, the Ministry of Labor issued the *Interim Measures for Maternity Insurance for Enterprise Employees* in 1994 and began to try out the maternity insurance system. In 1997, the Ministry of Labor issued the *Coverage Plan of Maternity Insurance*, requiring universal coverage of the maternity insurance system by the end of 1999.

Since the 18th CPC National Congress, to build a moderately prosperous society in an all-round way and achieve the goals of shared development and common prosperity, the central government has gradually improved the social security system and is committed to establishing a unified, fair, sustainable and integrated urban-rural multi-level social security system. In terms of old-age insurance, in 2014, the State Council issued the *Opinions on Establishing a Unified Basic Old-age Insurance System for Urban and Rural Residents*, requiring to establish a unified old-age insurance system for urban and rural residents by integrating the “new rural insurance system” with the basic old-age insurance system for urban residents. In 2015, the State Council issued the *Decisions on Reform of Old-age Insurance System for Personnel of Government Agencies and Institutions*, requiring government agencies and institutions to implement the basic old-age insurance system combining social pooling and individual accounts from October 1, 2014, putting an end to the “dual track” old-age insurance system for personnel at government agencies and institutions and enterprise employees. In 2016, the Ministry of Human Resources and Social Security issued the *Reply of the General Office of the Ministry of Human Resources and Social Security to Opinions on Handling Issues of Transfer and Continuation of Old-age Insurance for Urban and Rural Residents*, which clarified the transfer and continuation of old-age insurance for migrant population. The development of medical insurance has been briefly explained above. In 2017, the State Council began the pilot to merge maternity insurance with basic medical insurance for employees and comprehensively promoted the merged system in 2019. In terms of social assistance, the State Council promulgated the *Interim Measures for Social Assistance* in 2014, clarifying the establishment of an integrated urban and rural social assistance system.



On November 17, 2016, at the 32nd World Conference of the International Social Security Association (ISSA), the Chinese government was awarded the “social security outstanding achievement award”, as the second in the world to receive this award. *Source* “Chinese Government Was Awarded the ‘Social Security Outstanding Achievement Award’ by ISSA”, http://www.gov.cn/xinwen/2016-11/18/content_5134315.htm

In general, after years of development, China’s social security system has been gradually improved, creating conditions for promoting the equalization of public services, and for shared development and common prosperity.

Chapter 6

Approaches to Common Prosperity



At the 10th Meeting of the Central Committee of Finance and Economic Affairs, President Xi Jinping pointed out that “Since the 18th CPC National Congress, the Central Committee has kept a firm grasp on new changes in our stage of development, and given greater weight to gradually achieving the goal of prosperity for all. To this end, our Party has promoted coordinated development between different regions, and adopted effective measures to improve people’s wellbeing, win the battles to eradicate extreme poverty, and build a moderately prosperous society in all respects. These measures have created conditions conducive to bringing about prosperity for all. We have thus advanced into a historical stage in which we will make solid steps toward common prosperity”. Solid progress to common prosperity is an inevitable requirement of the new era, as well as the ardent expectation of the people.

President Xi Jinping drew up a grand blueprint and path to achieve common prosperity. At the 10th Meeting of the Central Committee of Finance and Economic Affairs, President Xi Jinping pointed out “by the end of the 14th Five-Year Plan period, we will have made solid progress toward bringing prosperity to all, while the gaps between individual incomes and actual consumption levels will gradually narrow. By 2035, we will have made more notable and substantial progress toward common prosperity, and equitable access to basic public services will be ensured. By the middle of this century, common prosperity will basically be achieved, while gaps between individual incomes and actual consumption levels will be narrowed to an appropriate range.”

On the general guidelines for solidly promoting common prosperity, President Xi Jinping pointed out at the 10th Meeting of the Central Committee of Finance and Economic Affairs that “we should adhere to the people-centered development philosophy, promote common prosperity through high-quality development and properly balance the relationship between efficiency and equity. We should establish a basic institutional arrangement enabling coordination and complementarity between the primary, secondary and tertiary distribution. We should intensify our efforts to regulate distribution through taxation, social insurance and transfer payments, while also working to make these efforts more precise. This will help us expand the relative

size of the middle-income groups, raise incomes among low-income earners, properly adjust excessive incomes, and prohibit illicit income, creating an olive-shaped distribution structure that is larger in the middle and smaller at each end. By doing so, we will be able to promote social fairness and justice and people's well-rounded development, and make solid strides toward the goal of common prosperity for all." The scientific integration of top-level design and grass-root pilot projects, two-pronged regulation of flow and stock, and coordinated and complementary primary distribution, secondary and tertiary distribution, constitute the distinctive Chinese characteristics in solid progress towards common prosperity.

6.1 Scientific Integration of Top-Level Design and Grass-Root Pilot Projects

The scientific integration of top-level design and grass-root pilot projects not only gives full play to the political advantages of centralized and unified leadership of the CPC Central Committee, but also fully mobilizes the enthusiasm, initiative and creativity of local governments. It is a valuable experience summarized from the smoothly advancing reform. Through combined top-level design and grass-root pilot, China has overcome one difficulty after another to boost reform. President Xi Jinping stressed at the 7th meeting of the Central Leading Group for Comprehensively Deepening Reform that "all and every breakthrough and development in the understanding and practice of reform and opening-up come from the practices and wisdom of the people. We should encourage local governments, community-level organizations and the people to emancipate their minds for active explorations, support different regions to carry out differentiated pilot projects, locate the starting point for reform from deep concerns and the difficulties in people's lives, and promote the benign interaction and scientific integration of top-level design and grass-root exploration." China's solid progress towards common prosperity also features the scientific integration of top-level design and grass-root pilot projects. President Xi Jinping emphasized at the 10th Meeting of the Central Committee of Finance and Economic Affairs that "While making solid progress in building Zhejiang Province into a demonstration zone for common prosperity, we must also encourage other areas to explore effective paths tailored to their own conditions. We will draw together experience, and then gradually apply it in other areas."

In May, 2021, the CPC Central Committee and the State Council officially issued the *Guidelines on Supporting High-quality Development and Building Zhejiang Province into a Demonstration Zone for Common Prosperity* (hereinafter referred to as the Guidelines), which entrusted Zhejiang with the mission of taking the lead in China and exploring the way for achieving common prosperity. The Guidelines fully embodied the idea of organically combining top-level design and grass-root

pilot projects, and clearly stated that “at present, unbalanced and inadequate development remains a prominent problem in China. In particular, there are large disparities in both development and income distribution between rural and urban areas, and varying basis and conditions for common prosperity among regions. Promoting common prosperity for all is a long-term and arduous task, so it is necessary to pilot in some regions and build demonstration zones. Zhejiang Province has made remarkable achievements in exploring ways to solve the problem of unbalanced and inadequate development, and has the conditions and advantage to build a demonstration zone for common prosperity. Meanwhile, there remain some weaknesses, but there is also great potential for perfection and development. Supporting the high-quality development and building Zhejiang Province into a demonstration zone for common prosperity is conducive to further enriching the ideological connotation of common prosperity through practice, to exploring effective ways to solve the main social contradictions in the new era, to providing a provincial model to promote common prosperity across the country, and to creating an important window to comprehensively demonstrate the superiority of the socialist system with Chinese characteristics in the new era.” The Guidelines emphasized that “we should firmly uphold the authority of the Central Committee and its centralized and unified leadership, giving full play to the central role of the CPC in providing overall leadership and coordinate the efforts of all involved, and adhere to and improve the socialism with Chinese characteristics, and turn the Party’s political and institutional advantages into a powerful driving force and strong guarantee to promote the construction of demonstration zone for common prosperity and building of consensus among all parties involved.”

In terms of these safeguard measures like the mechanism for the implementation, demonstration and promotion, the Guidelines also embodied the concept of scientific integration of top-level design and grass-root pilot projects, as it clearly stated that “we should stick to and strengthen the Party’s overall leadership, by insisting on the Party’s leadership in all sectors and links through the whole process of supporting high-quality development of Zhejiang Province and building it into a demonstration zone for common prosperity, while ensure policy guarantee and delegate the power to reform. Relevant central and state agencies should, in accordance with their own functions, strengthen the guidance and supervision over Zhejiang Province, formulate and issue special policies based on the guidelines, and give priority to endow Zhejiang Province with the tasks of reform exploration, pilot and demonstration in this field, while focus on supervision and inspection of reform experiments and policy implementation. Besides, these agencies should establish and perfect the demonstration and promotion mechanism, to timely summarize the successful experiences and practices during the construction of the demonstration zone, conclude and extract innovative fruits in institution and mechanism, and roll out the resulted mature system nationwide, fully playing the demonstration and model role of Zhejiang Province, and perfect the implementation mechanism whereby the central government makes overall plans, provincial-level governments take overall responsibility, and city and county governments ensure implementation. Relying on the leading group for the promotion of the integrated development of the Yangtze River Delta, to strengthen

the overall guidance for the construction of a demonstration zone for common prosperity in Zhejiang, National Development and Reform Commission took the lead and formed a special working group responsible to coordinate and promote the tasks and measures proposed in the Guidelines. The governments in Zhejiang Province should earnestly assume main responsibilities, embrace the responsibility with the courage to break new ground and overcome difficulties through reform, be aggressive and prudent to develop specific implementation plans by taking into account the provincial condition and development level, and fully mobilize all parties involved, to open up new realms of development in a practical way and brave challenges at the forefront. Major issues shall be submitted and reported timely to the CPC Central Committee and the State Council for instructions.”

As a demonstration zone for common prosperity through high-quality development, Zhejiang Province has also developed working ideas of combining top-level design with grass-root pilot projects, as Zhejiang provincial government encourages localities, based on local conditions, to formulate their own action plans for common prosperity with local characteristics, by making use of their unique advantages, improving the weakness, and precisely seeking for a starting point, support and path for common prosperity.

Since the release of the Guidelines, the construction of the demonstration zone for common prosperity through high-quality development in Zhejiang Province has been moving on smoothly, fully demonstrating the effect of the idea of an organic combining top-level design with grass-root pilot projects. Taking solidly promoting the construction of a demonstration area for common prosperity as a vivid practice to comprehensively demonstrate the advantages of the socialist system with Chinese characteristics in the new era, Zhejiang Province is exploring the ways for common prosperity for the whole country. Earnestly assuming their responsibilities, considering the actual conditions and development level, the CPC Zhejiang Provincial Committee and the People's Government of Zhejiang Province established a new working system and promotion mechanism to boost the implementation of the Guidelines in an all-round and multi-level way, and there has been some successes and achievements. In 2021, per capita GDP in Zhejiang Province reached RMB 113,000, and the incomes of urban and rural residents ranked first in China respectively for 21 and 37 consecutive years. The National Development and Reform Commission and Zhejiang Province have worked together to promote the construction of the demonstration zone. To promote the construction of a demonstration zone for common prosperity through high-quality development in Zhejiang Province, the National Development and Reform Commission should firstly focus on, strengthening overall planning and guidance. Through endless perfection of the implementation mechanism whereby the central government makes overall plans, provincial-level governments take overall responsibility, and city and county governments ensure implementation, and taking the lead to form a special working group to coordinate and accelerate the carrying-out of the tasks and measures proposed in the Guidelines through close communication with Zhejiang provincial government, so as to practically strengthen the supervision and guidance on the construction of the demonstration zone. Secondly, it should help with the development of policies in

special areas, namely, planning and developing a “1 + N” supporting policy system for the construction of Zhejiang demonstration zone, coordinating Zhejiang Province with relevant central and state agencies to give priority to endow Zhejiang Province with the tasks of reform exploration, pilot and demonstration in this field, and clarifying the division of responsibilities to effectively formulate policy documents in related fields. Third, it should summarize and roll out the successful experiences nationwide, meaning the National Development and Reform Commission should carefully sort out successful experiences and good practices in the construction of Zhejiang demonstration zones, define the new achievements in systems and mechanisms and timely report the progress in the demonstration zone construction to the CPC Central Committee and the State Council, so as to better play the demonstration role and provide reference to other provinces.

6.2 Expansion of the Middle-Income Group

Expanding the size and proportion of the middle-income group is an important way to achieve common prosperity. The middle-income group refers to the social group that has a middle-level income, with relatively stable employment and a comparatively well-off life. Expanding the size of the middle-income group and creating an olive-shaped distribution structure is not only an integral part of common prosperity, but also an inherent requirement to progress toward common prosperity. It is an integral part of common prosperity, because common prosperity requires the fruits of modernization to be shared among all people, that is, highly developed social productive forces and comprehensively progressed society. It is an inherent requirement to achieve common prosperity, because expanding the size of the middle-income group and creating an olive-shaped distribution structure with the middle-income group accounting for the majority will help improve the distribution of income and wealth, promote common prosperity for all members of the society, and better benefit all people with the economic development achievements. From the perspective of the foundation of common prosperity, it also needs to expand the size of the middle-income group to build a new development pattern of dual circulation for high-quality development. In *Major Issues Concerning China's Strategies for Mid-to-Long-term Economic and Social Development*, President Xi Jinping pointed out that “consumption is a key driver of China's growth, and the middle-income group is the cornerstone of consumption”. The middle-income group has a greater power of and potential in consumption of the quality durable consumer goods. Therefore, the prosperity of the middle-income group is a necessary condition to expand the consumption demand, gather industries by the market, and stimulate economic development with the new consumption momentum. The expansion of the middle-income group can further increase the consumption demand, help to build a new “dual circulation” development pattern, promote high-quality development, and ensure that China transforms into a high-income country smoothly.

At the 10th Meeting of the Central Committee of Finance and Economic Affairs, President Xi Jinping pointed out: “we will strive to expand the size of the middle-income group. Focusing on key groups, we will take targeted measures to help more low-income earners enter the middle-income bracket. Graduates with higher education are an important source for populating the middle-income group. We must therefore raise the quality of higher education, seeing that students are able to acquire a specialty from schools and apply this specialty in practice. In this way, we will help graduates adapt to the needs of social development as quickly as possible. Technical workers also represent an important part of the middle-income group. With this in mind, we will step up the training of skilled personnel and increase wages among technical workers in order to attract more high-caliber talent to join their ranks. Owners of small and medium-sized enterprises, as well as self-employed people, are part of an important group building wealth through entrepreneurship. To help them maintain steady business operations and enjoy sustained growth of income, we will improve the business environment, reduce tax burdens, and provide more market-based financial services. With regard to rural migrant workers, who constitute another important source of middle-income earners, we will deepen reform of the household registration system, and address problems related to education for children living with their parents who are from rural areas but now working in cities, helping them hold steady jobs and feel more at ease about living in the city. We will appropriately raise the pay packages of public servants, especially those working at the local level, as well as primary-level workers of state-owned enterprises and public institutions.” Focusing on key groups, and taking targeted measures to help more low-income earners enter the middle-income bracket, the inference of President Xi Jinping clarifies the policy for China to expand the size of the middle-income group.

Now in China there is an ever-growing middle-income group exceeding 400 million, larger than the total population of the United States and equivalent to the total population of the European Union. The absolute number of the expanding middle-income group in China have provided strong support to the goal of realizing common prosperity, the establishment of a new development pattern and the advancement of high-quality development.

From the perspective of the distribution, the middle-income group in China is relatively concentrated. About 90% of the middle-income group live in cities, and about 55% in eastern China. In addition, the statistics by provinces show that the size of the middle-income group in each province, autonomous region or municipality has a certain relationship with local economic development and urbanization level. The region with higher per capita GDP, higher per capita disposable income, and a higher proportion of the urban population, will have a higher proportion of the middle-income group, indicating that narrowing the urban-rural and regional gap and improving the degree of urbanization will help to expand the size of the middle-income group.

From the perspective of income structure, the wage income contributes 60% of the total incomes of the middle-income group. Among high-income and low-income groups, it is roughly the same for the wage income, meaning the wage is the main source of income for all groups. Compared with low-income and high-income groups,

the operational income, which accounts for 12% of the total, is less important to the middle-income group. Property income takes a proportion of about 10% of the total incomes of the middle-income group, far lower than that in developed countries. For example, property income contributes about 20% of the total incomes of the middle-income group in the United States, about 24% in Japan, and about 30% in Sweden. For the middle-income groups in developed countries, property income usually constitutes an important source of income. Therefore, raising property income is an important means to expand the proportion of the middle-income group.

In general, there are still problems such as the excessive income gap between urban and rural areas, among regions and industries in the income distribution pattern in China, which affects the expansion of the middle-income group. At present, the middle-income group in China gathers in cities and in eastern regions. Therefore, narrowing the urban-rural and regional gap can help expand the size of the middle-income group.



Bazhou City, Hebei Province, has done a good job in “industry + employment”, attracting local people to work at home, increasing rural women’s income through the transformation from “housewives” to “skilled workers”. The picture shows the sewing workshop of a furniture company in the city, where female workers are sewing the covers of dining chairs over sewing machines. *Source* Song Mintao, Guo Jingquan, “From “Housewives” to “Skilled Workers”, Rural Women in Bazhou, Hebei Province Saw Their Income Increasing Without Leaving Home”, <http://www.chinanews.com.cn/gn/2021/12-02/9620947.shtml>

There also are great differences among the middle-income group, so it is necessary to select key groups and take targeted measures to make key breakthroughs. Graduates with higher education, technical workers, owners of small and medium-sized enterprises as well as self-employed people, migrant workers, civil servants and employees of state-owned enterprises and institutions are the key groups whose

incomes should be raised, and also important sources for populating the middle-income group. Targeted measures focusing on key groups should be implemented to help more low-income earners enter the middle-income bracket, which has taken some effects. Property income is an important source of income for the middle-income group, which takes a relatively low share of the total. Wealth generates property incomes, so improving the distribution pattern of wealth in terms of stock will also help expand the proportion of the middle-income group.

6.3 Coordination and Complementation Between Primary Distribution, Secondary Distribution and Tertiary Distribution

President Xi Jinping stressed that “we should establish basic institutional arrangements enabling coordination and complementarity between the primary, secondary, and tertiary distribution. We should intensify our efforts to regulate distribution through taxation, social insurance, and transfer payments while also working to make these efforts more precise”.

Being principle and productive, the reform of the primary distribution system determines the power balance among different social groups and the sustainability of the redistribution system. Without profound changes in the primary distribution, the redistribution system cannot help fundamentally enhance social equity and eliminate social exclusion although it may help improve the living conditions of low-income groups. Therefore, to fundamentally deal with the widening gap between the rich and the poor in China’s economic transformation, it should start by eliminating social exclusion and carrying out the reform of the primary distribution system. In addition, setting income distribution straight and effectively controlling the income gap in the primary distribution can also reduce the regulatory pressure on redistribution policy. In the primary distribution, the income gap should finally embody the results of market competition. The primary task of the government is to provide public services, maintain the order of market competition, regulate the production factors and commodity markets, promote market development, correct market irregularities such as monopoly, barriers to industry entry, discriminatory treatment in factor markets such as loans, and obstacles to labor market mobility, and ensure equity of the distribution.

Redistribution presents an effective means for the government to regulate the income gap. The redistribution policies in developed countries have been effective in regulating the income gap generally. The data from OECD countries in 2018 indicated that, except for a few countries, the redistribution policies helped OECD countries reduce the Gini coefficient of income after the primary distribution by at least 20%. In particular, Belgium recorded a decrease in the Gini coefficient of income by 47.35% with the redistribution policy. In general, the Gini coefficients of disposable incomes after primary distribution and after redistribution in OECD

countries were 0.474 and 0.312 respectively, reflecting that the redistribution policy reduced the Gini coefficient in OECD countries by 34.18% on average. Comparatively, the redistribution policies in developing countries, including China, have a weak effect.

China needs to improve the effectiveness of redistribution policy in regulating the income gap, and perfect the redistribution system mainly through taxation, social insurance, and transfer payments, especially taxation. Taxation is an important means of income redistribution, and progressive taxes can effectively narrow the income gap. Indirect taxes play a dominant role in China's tax structure, but indirect taxes are basically regressive, resulting in a regressive tax system in China as a whole. Individual income tax and selective consumption tax are progressive taxes, which can neutralize the widening effect of indirect taxes on the income gap to a certain extent. However, at present, progressive taxes takes a low proportion of the total tax revenue in China, and cannot completely offset the regressive effects of indirect taxes. Therefore, the proportion of direct taxes should be gradually increased. In addition, the regulating role of individual income tax in income distribution is relatively limited, so it is necessary to optimize the tax structure, and a solid step has been taken with the individual income tax reform in 2018.



On July 12, 2022, “Guangdong Poverty Alleviation Day” and the event themed “the whole society for the rural revitalization” was held in Shenzhen, where 12 charity enterprises planned to purchase products of RMB 1.25 billion for poverty alleviation through consumption, and representatives of 14 enterprises and social organizations pledged to donate more than RMB 485 million to help the rural revitalization and promote common prosperity through practical actions. *Source* Du Changrong, Wei Gege, “Shenzhen 2022 ‘Guangdong Poverty Alleviation Day’ Launched with Subscriptions and Donations of More than RMB 1.7 Billion by Enterprises for the Rural Revitalization”, http://k.sina.com.cn/article_1895096900_70f4e24402001g0zd.html

The tertiary distribution serves as an effective supplement to income distribution. The solid progress toward common prosperity calls for fully playing the role of the tertiary distributions. Enterprises and social groups with the willingness and capability are encouraged to participate in public welfare charities, since corporate and social assistance played a positive role in poverty alleviation. Such successful experiences and practices are also of great significance to common prosperity.

6.4 Regulation of Flow and Stock

The *Proposal of the CPC Central Committee on Formulating the Outline of 14th Five-Year Plan for National Economic and Social Development and the Long-range Objectives through the Year 2035* (hereinafter referred to as the Proposal) stated that it is necessary to improve the distribution pattern of income and wealth. The distribution pattern of income and wealth determines the way to share development achievements and the results. Improved income and wealth distribution pattern is a solid foundation for the goal of achieving common prosperity. From the perspective of economics, income refers to the value of various resources obtained by individuals or families in a certain period, the embodiment of flow, while wealth refers to the accumulation at a certain point, the embodiment of stock. Wealth and income are closely related, and the wealth gap is generally larger than the income gap. Some countries that have effective regulation of income gap are doing less than satisfactory with the regulation of wealth gap. Unable to effectively regulate income and wealth gaps at once will undoubtedly affect the sharing of economic development achievements among the people in these countries.

As the Proposal clearly pointed out, improving the distribution pattern of income and wealth means work along both lines of flow and stock regulation. On one hand, considering the rapid extending wealth gap in China, practical measures need to be taken to regulate the stock; on the other, it shows the widely different choices by China and western countries, as China targets common prosperity by sharing the fruits of economic development among all people through the coordinated regulation of both flow and stock.

There is a close tie between wealth and income. The balance of income contributes to the accumulation of wealth, and wealth can also promote the income to grow with property income and so on. In addition, as the assets of residents, wealth also has

the function of preserving and increasing value, which will also contribute to the accumulation of wealth. Therefore, the increase of per capita wealth, on one hand, is related to the successive growth of the income, and reflects the appreciation of assets themselves, on the other. The distribution of income and wealth is directly linked to whether the achievements of reform and development can better benefit all the people more fairly, and to the realization of common prosperity. As the stock of income accumulation, the wealth gap in general not only shows a certain positive correlation with the income gap, but is often larger than the income gap, because of the wealth accumulation effect. For example, the Gini coefficient of disposable income of residents in OECD countries usually ranges from 0.30 to 0.50, while the Gini coefficient of wealth ranges from 0.50 to 0.80. While improving the income distribution pattern, China should pay attention to narrowing the wealth gap and to optimize of the wealth distribution pattern. The coordinated regulation of flow and stock can effectively promote the realization of common prosperity for all.

Since the reform and opening-up, China has made remarkable achievements in economic transformation and development. At the same time, the distribution pattern of wealth among the people has also undergone profound changes. With the rolling-out of the household contract responsibility system, the implementation of housing reform, the rise of private enterprises and the prosperity of the financial market, the ways to accumulate wealth have been greatly diversified, and the wealth of residents is increasing. The wealth growth rate of residents in China is not only faster than that of the income, but also faster than that in developed countries in America and Europe. However, with the rapidly increasing wealth, the wealth gap among Chinese is also widening significantly. The wealth gap among Chinese widened when the wealth of every group of residents in China has increased, but it was undeniable that some people had a too large rise in the wealth increase. Globally, the absolute wealth gap among Chinese people was not high, but the gap extended very fast. The Proposal suggested that in addition to improving the income distribution pattern, China should also reform the wealth distribution pattern, reflecting the accurate prediction and timely intervention of the widening gap in wealth distribution.

From the perspective of family wealth composition, the net value of real estate takes the largest proportion of family wealth, and the appreciation of real estate is also an important driver of wealth increase. The large proportion of real estate net value in family wealth and its uneven distribution makes real estate net value the most important cause of the wealth gap among families. Therefore, by issuing policies focusing on regulating the real estate market and narrowing the distribution gap of real estate net value, China can effectively improve the wealth distribution pattern. As described in the report of the 19th CPC National Congress, "We must not forget that housing is for living in, not for speculation. With this in mind, we will move faster to put in place a housing system that ensures supply through multiple sources, provides housing support through multiple channels, and encourages both housing purchase and renting. This will make us better placed to meet the housing needs of all of our people." Controlling housing prices and expectations for further rising, improving the affordability of low-income groups, accelerating the construction of affordable housing, adhering to the system encouraging both renting and purchasing, speeding

up the development of long-term rental housing market, promoting the construction of security housing, regulating the housing credit market, all these measures make housing gradually return to the residential attribute, and help narrow the differences in real estate net value and even the wealth distribution gap.